





## ABOUT RIZAL MICROBANK

Rizal MicroBank, Inc. – A Thrift Bank of RCBC (RMB) operates as a subsidiary of Rizal Commercial Banking Corporation (RCBC), which belongs to one of the oldest and largest conglomerates in Southeast Asia – the Yuchengco Group of Companies.

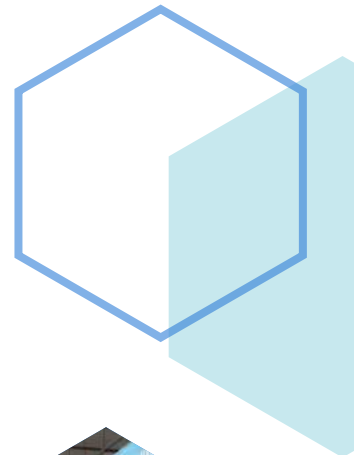
RMB began its operations in August 2010 through its first branch in Koronadal, South Cotabato. Two years later, it was merged with another RCBC subsidiary, Pres. Jose P. Laurel Rural Bank, which had operations in the Southern Tagalog region of Luzon. Presently, RMB operates nationwide with a total of sixteen (16) branches and two (2) branch-lite units.

Throughout its 13 years of operations, RMB remained true to its vision of becoming the financial partner of choice by micro & small enterprises – a segment that remains to be largely underserved by the industry. Our goal is to provide customer-centric, innovative products that would make loans & deposits more accessible and convenient to the small business owners.

Such transition remained grounded on our core values, aptly encapsulated in the acronym “MICRO”: Malasakit, Integrity, Commitment, Resourcefulness, and Oneness.

Credit and deposit products have been modified to allow more micro and small enterprises to acquire and use these services for purposes of business expansion and/or financial security. This mission is evident in the design of the bank’s primary loan product, the Small Business Loan, whose size ranges from P20,000 to P10 Million and is paid on a semi-monthly or monthly basis. Since 2016, RMB has also been in the business of extending credit towards the agricultural sector. Our customer base has increased substantially with the implementation of the Value Chain Financing (VCF) program.

Our Board of Directors, composed of professionals with competencies and experience in the disciplines of banking, accounting, economics, law, agribusiness, and development finance, are leading the Bank in its efforts to positively contribute to the welfare of the ordinary Filipinos. Alongside our parent bank, RMB will continuously fulfill its mission of bringing financial services closer to the homes of the micro and small entrepreneurs in the Philippines.



## THE RCBC BRAND

The Rizal MicroBank brand is aligned with that of RCBC, its parent bank, wherein both are using the “Blue Hexagon” corporate logo.

The Blue Hexagon is the corporate logo of the Yuchengco Group of Companies, of which RCBC serves as the financial services arm. It was conceived with synergy in mind, with its six interlocking trapezoidal fields representing the conglomerate’s founding businesses: life insurance, non-life insurance, banking and finance, investments, transportation and communication, and manufacturing and construction. The design gives the impression of a dynamo spinning on its hub—dynamic and ever-moving. It is viewed as a celestial sphere that radiates power, energy, and productivity.

For more than 60 years, RCBC has proudly used the Blue Hexagon to symbolize its union with the YGC conglomerate. However, the bank recognizes the need to be a dynamic brand that will resonate not just with its traditional corporate client, but also with the retail consumers as well. Thus, in 2017, RCBC embarked on a brand refresh.

The new RCBC is anchored on the mission to maintain and further strengthen the Bank’s relevance among Filipinos amidst the changing banking landscape and shifting dynamics. This is the Bank’s way to refresh and re-energize its services to serve its loyal customers who have stood with them all these years. At the same time, this was also RCBC’s way to expand its presence among the younger Filipinos.

Having built a solid foundation of service and trust through the years, RCBC embodied these values as cornerstones in making its brand meaningful to consumers. Bringing to life messages on customer service became

central to the bank’s campaign, anchoring it in the reality that relationships with clients are at the heart of RCBC.

This message ultimately finds its expression in the tagline “Partners through Generations,” which envelops RCBC’s strong engagements built and passed on to future generations.

It becomes a clear message that this is not about the bank, but what the bank can do for its customers. It shows that the RCBC group can be a strong partner in creating possibilities with a formidable line-up of financial products and services.

RCBC amplifies the importance it has placed in building great customer relationships. It understands that every Filipino works hard in order to achieve their dreams. It is our commitment that it will be there to provide its clients with the right financial tools to help them achieve their dreams.







## VISION

To be the financial partner of choice of micro and small entrepreneurs in the Philippines.

## MISSION

We are the committed bank partner in providing credit to small entrepreneurs sustainably.

## CORE VALUES

- **MALASAKIT**

We have “malasakit” in serving our customers for inclusive development of our nation. Our employees have “malasakit” to the bank and the bank to its employees.

- **INTEGRITY**

We are trustworthy in dealing with our customers and we are transparent in everything that we do.

- **COMMITMENT**

We are committed to providing excellent service, to developing the competence of our people, and to building loyalty and value for RMB and our customers.

- **RESOURCEFULNESS**

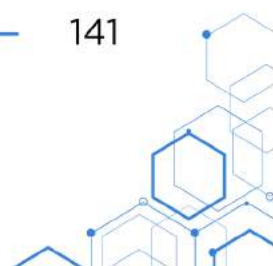
We are resourceful in responding to the needs of our customers and in achieving the desired results and objectives of the company while upholding ethics.

- **ONENESS**

We will be united as a team as we work together across Luzon, Visayas, and Mindanao.

# TABLE OF CONTENTS

|                                 |       |     |
|---------------------------------|-------|-----|
| CORPORATE PROFILE               | _____ | 2   |
| REVIEW OF OPERATIONS            | _____ | 6   |
| FINANCIAL HIGHLIGHTS & RATIOS   | _____ | 8   |
| RISK MANAGEMENT FRAMEWORK       | _____ | 9   |
| CORPORATE GOVERNANCE            | _____ | 19  |
| BOARD OF DIRECTORS              | _____ | 32  |
| EXECUTIVE OFFICERS              | _____ | 40  |
| TABLE OF ORGANIZATION           | _____ | 49  |
| CORPORATE SOCIAL RESPONSIBILITY | _____ | 50  |
| CAPITAL STRUCTURE & ADEQUACY    | _____ | 52  |
| AUDITED FINANCIAL STATEMENT     | _____ | 64  |
| PRODUCTS AND SERVICES           | _____ | 139 |
| BANKING OFFICES                 | _____ | 141 |





## FINANCIAL PERFORMANCE

In 2023, RMB continued to serve the financial needs of micro and small enterprises (MSEs) within its trade areas. Despite the economic volatilities surrounding the country, RMB did not waver in its mission of enabling the underserved clients to access financial credit efficiently and conveniently.

The bank's commitment to fulfill its mandate generated a net income of P3.2 Million for the year. RMB's positive bottomline has been likewise influenced by the growth in its gross revenues by P32.5 Million. Interest income totaled P206.2 Million as of December 2023, marking a 16% surge on a year-on-year basis. With the lending groups' focus on simplifying its credit methodology, the bank was able to cater to borrowers with loan requirements that are less than P1 Million, who are less price-sensitive but value expedient processing time.

However, although interest income arising from loans extended to micro and small enterprises grew by 15% year-on-year, this was heavily weighed down by higher interest expense as a result of successive key interest rate hikes that began in May 2022 and lasted until 2023.

Still, RMB posted a 19% year-on-year growth in portfolio ADB as a result of its micro and small enterprise lending operations, to P1.3 Billion in 2023 from P1.1 Billion in 2022. Loan disbursement increased minimally by 3% year-on-year, to P1.57 Billion in 2023 from P1.53 Billion in 2022 when micro and small enterprises took a conservative stance to borrowing due to still high interest rates and inflationary environment.

The total resources of the bank in 2023 stood at P1.7 Billion, same level in 2022. Of the total resources, loan and receivables extended to micro and small enterprises constitute 73%. Total liabilities also remained flat year-on-year at P1.2 Billion, influenced by the reduction in deposit liabilities by 5% year-on-year. Total equity slightly increased year-on-year, to P0.51 Billion in 2023 from P0.50 Billion in 2022, with notable positive variance brought about by the increase in revaluation reserves and net income for the year.

## OPERATIONAL PERFORMANCE

While stabilizing the bank's operations in 2023 after the challenging pandemic period, RMB initiated a business redesign initiative called Project Glory. The initiative which aims to make RMB the financial partner of choice of micro and small enterprises in the country has four important components:

1. Aggressive acquisition of MSE customers via a streamlined credit organizational structure.
2. Building a strong physical presence in areas thickly populated by MSEs thru a cost-lite approach.
3. Credit process and product simplification to be more responsive to target market profile and requirements.
4. Digitalization of key processes to provide a seamless journey for its customers thru enhancements of existing platforms and channels.

Nevertheless, prior to this initiative, RMB had already taken steps toward improving its operations and understanding this model within the requirements of its mandated market.

Finally, RMB has also successfully joined the InstaPay network through RCBC, enabling both depositors and borrowers to transfer funds in real-time in their RMB deposit accounts.

These initiatives signaled RMB's journey towards transforming its process to deliver better customer experiences. Together with several more enhancements embedded in the business redesign project, the bank is now on its way to transforming itself to be the financial partner of micro and small entrepreneurs in the Philippines.





Significant initiative undertaken is the use of information from the Credit Information Corporation and its specialized accessing entities, as well as from BAP-CB NFIS, in evaluating the creditworthiness of micro and small entrepreneurs availing the bank's business loan product. Based on the initial study conducted by the bank, data from the credit bureau is expected to make the credit underwriting more efficient and will provide the bank with better control of its portfolio quality.

To make loan applications easier and more accessible, RMB likewise introduced an online application portal via its website where prospective borrowers can apply for a loan anytime and anywhere.

Another noteworthy initiative undertaken in 2023 is the strengthening of its current foray in value chain financing. RMB and Franklin Baker Inc. formally agreed to scale its initial partnership to provide a seamless financing mechanism for coconut traders-suppliers in Luzon and Mindanao. As of December 2023, the said program managed to disburse P184.8 Million spread across 28 active borrowers. RMB intends to double the said amount as it continues its relentless efforts to support coconut farmers across the country. More importantly, the Value Chain Financing Unit of the bank envisions replicating this success across other private companies and entities so that their MSE partners shall also enjoy access to affordable and convenient credit.



## FINANCIAL HIGHLIGHTS AND RATIOS

|  | Audited |        |          |          |
|--|---------|--------|----------|----------|
|  | 2023    | 2022   | Variance | % Change |
| <b>Profitability (in PHP MN)</b>               |         |        |          |          |
| Total Net Interest Income                      | 162     | 158    | 4        | 2.5%     |
| Total Non-Interest Income                      | 65      | 56     | 9        | 16.1%    |
| Total Non-Interest Expense                     | 210     | 206    | 4        | 0.5%     |
| Pre-Provision Profit                           | 13      | 4      | 9        | 225.0%   |
| Allowance for Credit Losses                    | 10      | -16    | 26       | -162.5%  |
| Net Income (Loss)                              | 3       | 20     | -17      | -85%     |
|  |         |        |          |          |
|  |         |        |          |          |
| <b>Selected Balance Sheet Data (in PHP MN)</b> |         |        |          |          |
| Liquid Assets                                  | 227     | 274    | -47      | -17.2%   |
| Gross Loans and Receivables                    | 1,276   | 1,234  | 42       | 3.4%     |
| Total Resources / Assets                       | 1,686   | 1,678  | 8        | 0.5%     |
| Deposits                                       | 992     | 1,050  | -58      | -5.5%    |
| Net Worth                                      | 510     | 504    | 6        | 1.2%     |
|  |         |        |          |          |
| <b>Selected Ratios</b>                         |         |        |          |          |
| Return on Equity                               | 0.6%    | 3.9%   | -3.3%    | -84.5%   |
| Return on Assets                               | 0.2%    | 1.3%   | -1.1%    | -85.6%   |
| Capital Adequacy Ratio                         | 29.2%   | 29.1%  | 0.0%     | 0.0%     |
| Cost-to-Income Ratio                           | 99.7%   | 89.1%  | 10.6%    | 11.9%    |
| Loan-to-Deposit Ratio                          | 129%    | 117.6% | 11.4%    | 9.7%     |
| Net Interest Margin                            | 13.2%   | 11.3%  | 1.9%     | 16.4%    |
| NPL - Gross Ratio                              | 9.5%    | 6.6%   | 2.8%     | 43.2%    |
| NPL - Net Ratio                                | 4.3%    | 1.3%   | 3.0%     | 227.7%   |
| NPA Ratio                                      | 6.3%    | 3.5%   | 2.8%     | 78.9%    |



## RISK MANAGEMENT CULTURE AND PHILOSOPHY

Focusing on micro & small enterprises encompasses a wide range of business activities; still, such sectors remain to be largely underserved by the industry since their activities are viewed to be risky and expensive to finance.

However, given as mandate, RMB Management has embraced the sector with a couple of following precepts:

- Prudential risk-taking and proactive exposure management for sustainable growth, capital adequacy and profitability.
- Alignment of standards with internationally accepted practices and regulations in the daily conduct of risk and performance management.
- A commitment in developing risk awareness across all operating units, promoting the highest standards of ethics and integrity, establishing a culture that emphasizes the importance of the risk process, sound internal control, and advocating the efficient use of capital.

Realizing these tenets while fulfilling our primary mission to increase profitability of micro-entrepreneurs and small businessmen, we pursue a thorough study of the intricacies of each business encountered via solicitation in the field. On a daily basis, RMB's Loan Account Specialists (LAS) are sent out to seek micro and small enterprises that will benefit from an infusion of working capital. They have been carefully trained to analyze conditions and the effects of the additional borrowing.

As a contribution to financial inclusion, RMB also has vigorously implemented an agricultural value chain financing program in the countryside. This has been expanded to cover more traders and suppliers that are in need of financing. In 2020, an Agency Banking Initiative was implemented to bring financial services where it is needed most, in the communities where the unbanked live. Strong linkages with local businesses have provided agent platforms that provide these with increased customer traffic and fee-based income from banking transactions performed on RMB's behalf. Needless to say, Risk Awareness has been top-of-mind in the development and implementation of these processes.

## RISK APPETITE AND STRATEGY

Loan Account Specialists have clear marching orders:

- Seek out micro and small entrepreneurs who indicate an interest in borrowing additional working capital.
- Immerse themselves in the day-to-day operational subtleties while remaining focused on the big picture.
- Look at the family's industry that will impact on the financial condition of the business.
- Establish the optimal amount of borrowing that will generate the greatest profitability based on existing conditions.
- Finally, answer the question – if this were your own money, would you be willing to lend it to the loan applicant?

The most important Key Risk Indicator for RMB's loan products is Portfolio-At-Risk (PAR). This is a red flag that signals possible errors in estimations of the optimal amount of debt the business should have taken on. This is measured as a missed payment of one day on any loan amortizations that are due. RMB's most successful loan account specialist have large portfolios with minimal to zero PAR. It is this zero-tolerance for delinquency that the Bank strives to impart on its operations group.

To prevent substantial delinquencies, RMB has no appetite to lend to businesses involved in any vices. RMB avoids lending for consumption purposes. It protects itself from risks by limiting credit concentration to the current percentages per type of industry while attempting to grow its loan book.



## ROLES AND RESPONSIBILITIES

### BOARD OF DIRECTORS

The Board of Directors (BOD) responsibilities are to:

- Approve the risk management framework which covers the risk management principles, strategies, policies, process and controls recommended by the Chief Risk Officer.
- Define the risk philosophy, strategy, risk appetite and tolerances.
- Delegate risk management authority.
- Approve appropriate thresholds or limits and set out policy in resolving the limit breaches.
- Ensure that there is an established communication process of Risk Framework, risk appetite and tolerance from Senior Management to the first line process owners.

### RISK OVERSIGHT COMMITTEE (ROC)

The Risk Management Department reports directly to the Risk Oversight Committee (ROC) of the Bank.

The ROC shall advise the Board of Directors on the bank's overall current and future risk appetite, oversee senior management's adherence to the risk appetite statement, and report on the state of risk culture of the bank.

### CHIEF RISK OFFICER (CRO)

The CRO shall be responsible for overseeing the risk management function and shall support the Board of Directors in the development of the risk appetite and risk appetite statement of the bank, and for translating the risk appetite into a risk limits structure. The CRO shall likewise propose enhancements to risk management policies, processes, and systems to ensure that the bank's risk management capabilities are sufficiently robust and effective to fully support strategic objectives and risktaking activities.

Further, the CRO shall be directly responsible in supervising the Operational Risk Management and Credit Risk Management Units of the bank.

### OPERATIONAL RISK MANAGEMENT UNIT (ORMU)

The responsibilities of the ORM Unit are to:

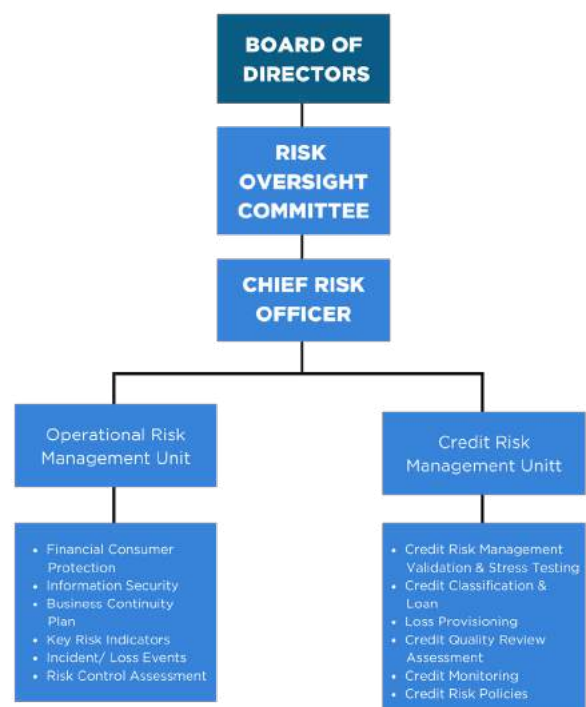
- Define and establish Operational Risk Management methodology tools and risk reporting system.
- Challenge the effectiveness of risk identification, assessment, control monitoring and reporting activities across the Bank.
- Consolidate and report to the BOD all identified risk and risk incidents or issues of process owners reported to ORM unit.

- Propose proper policies and procedures to the BOD and Senior Management relating to Operational Risk Management and controls;
- Cascade operational risk management activities throughout the organization and facilitate training of the Business Units in proper assessment of ORM issues.
- Ensure that established risk controls are compliant with the applicable laws and regulations.
- Oversee implementation of internal controls.
- Report to BOD and Senior Management on the Bank's operating risk profile, the effectiveness of controls and alignment with risk tolerance and risk appetite.

### CREDIT RISK MANAGEMENT UNIT (CRMU)

The responsibilities of the CRM Unit are to:

- Establish an appropriate credit risk environment and ensure that the bank is operating under a sound credit granting process.
- Maintain bank's appropriate credit administration, measurement, monitoring process and control process.
- Propose credit policies and procedures to the BOD and Senior Management relating to credit Risk Management and controls;
- Ensure that established credit risk controls are compliant with applicable laws and regulations.
- Report to BOD and Senior Management on the Bank's credit risk profile, the effectiveness of controls and alignment with risk tolerance and risk appetite.



## RISK MANAGEMENT POLICY

### ***Credit Risk***

The Bangko Sentral has laid down the building blocks for the implementation of the Philippine Financial Reporting Standard 9 (PFRS 9) with the issuance of enhanced standards on credit risk management in 2014 and amendment of the definitions of past due and non-performing loans in 2017. In particular, Circular No. 855 (2014) emphasizes the importance of effective governance structure and risk management process in lending operations. It highlights that instituting sound credit risk management practices is a fundamental overlay in recognizing adequate and timely allowance for credit losses. The credit risk management guidelines also explicitly set forth the Bangko Sentral's expectations on the adoption of sound loan loss methodologies that consider expected credit losses (ECL). Circular No. 941 (2017), on the other hand, aligns the regulatory definitions of past due, non-performing, and restructured accounts with international benchmarks. The said issuance aims to clearly distinguish performing from non-performing accounts and promote consistent recognition of default across the industry.

The Credit Management Unit of RMB is responsible for the implementation of these credit risk management standards. Throughout the year, strict alignment with Circular 941 in terms of past due and nonperforming loans classification was done. In the provisioning for allowance for credit losses, RMB has also complied with the RCBCwide Expected Credit Loss (ECL) methodology.

This methodology however still requires external validation to attest the approach used in computing ECL components such as Probability of Default (PD) and Loss Given Default (LGD) and Macroeconomic Overlay.

As of December 2023 update, the model validation of other RCBC subsidiaries, including RMB, will spill over to Q1 of 2024, hence, the external validation team suggested to retain the existing model in computing the required allowance for credit losses as of cut-off December 2023.

The ECL model considers past events, current conditions, and forecasts of future economic conditions in determining the allowance for credit losses. In contrast to Philippine Accounting Standards (PAS) 39, the ECL model requires early recognition of allowance for credit losses even before objective evidence of impairment becomes apparent. Thus, credit impairment is recognized over the life of the financial asset through stages: Stage 1, 2 and 3.

Stage 1 is when credit exposures are considered "performing" and bears no significant increase in credit risk from initial recognition or paving the way for the account to be classified as low credit risk. Stage 2 is when credit exposures are considered "under-performing" or when accounts are not yet non-performing but have a significant increase in credit risk from initial recognition. Lastly, Stage 3 is when credit exposures have objective evidence of impairment and are, therefore, considered as "non-performing".

The adoption of the ECL results in higher provisions especially upon first implementation as compared to the older regime under PAS 39. The increase came from Stage 1 and Stage 2 accounts. Facilities and credit exposures in Stage 1 are now required to be provided with a 12-month ECL while those classified under Stage 2 are already provided with lifetime ECL.

The ECL is a strict regime which pushed the bank further to enhance its credit risk management activities particularly with Portfolio-at-Risk reduction. It can be penalized in terms of additional provisioning if the quality of loan portfolio of the bank continues to deteriorate or when PAR continues to increase, thus affecting the bank's financial performance results.

### ***Market Risk Policy***

Investments are limited to overnight and term deposit placements with BSP Treasury or Bureau of Treasury Instruments, and RCBC and its subsidiaries for term placements. Deposits with other BSP Supervised Financial Institutions (BSFI) are limited to demand or savings accounts and are strictly monitored by the Treasury in terms of amounts. All deposits and investments require vetting by the Board of Directors, and each placement is individually approved.

### ***Interest Rate Risk***

All deposit products of RMB have a maturity of two years or less. All loan products have fixed interest rates for the term of the loan. Investments in other FI's or the National Government are limited to a maximum of 28-day terms. It is therefore the Bank's policy to find a balance between immunized earnings and economic value. This is communicated to the Executive Committee (ExeCom) monthly and to the Risk Oversight Committee and Board of Directors quarterly. Any divergence from approved lending rates requires authorization from the President and confirmation of the ExeCom and/or Board of Directors.

### ***Operational Risk Management***

The Bank operates within a strong control environment focused on the protection of the bank's capital and earnings and allows the business to operate without exposure to unacceptable potential losses through the implementation of approved policies, sound processes, and reliable information technology systems.

Among others, robust controls include: segregation of duties, dual controls, approvals and authorization, exception reporting, sound technology infrastructure, product manuals, etc.



Below is the summary of the basic tools used by the Bank:

### 1. Incident Reporting (IR)

Incident Reporting is essential in the identification of operational risk issues or events in each business and operating unit. This must be reported to the ORM Unit and appropriate stakeholders. This report assists the Bank in the execution of mitigating operational risks and ensuring that risks are communicated and reported.

### 2. Loss Reporting (LR)

Internal operational loss events reported by operating units provide information for assessing the bank's exposure to operational risk, effectiveness of internal controls and measures to minimize the recurrence and/ or magnitude of loss events.

### 3. Risk and Control Self-Assessment (RCSA)

The RCSA is one of the common tools used by the Bank in identifying and assessing operational risks. The process involves the assessment by the operating units of its operations and activities, and identification of all possible risks (categorized in accordance with the Basel risk events) that said units may be exposed to. These risks shall be assessed as high, medium or low based on the degree of severity and probability (after considering the controls).

### 4. Key Risk Indicators (KRIs)

Key Risk Indicators (KRI's) are measurements used by the Bank to monitor current and potential exposure to various operational risks. These are quantifiable metrics to accurately evaluate and assess the potential risk exposure of business activities and processes which may lead to the determination of the impact it can convey to each unit of the Bank.

### 5. Control Sample Testing

To test effectiveness of internal control procedures, an independent party shall conduct control sample testing especially on critical or key processes. Frequency and sample size of the sample testing will be dependent on the criticality of the identified risks.

### 6. Business Continuity Plan (BCP)

Business Continuity and Disaster Recovery Plans are other examples of risk mitigant tools. BCP aims to establish a planned process, procedure or strategy that can assure and provide for the continuity of major and critical services and operations during any critical events which may impair the Bank from conducting normal business operations.

### 7. Consumer Protection

The Bank, consistent with its continuing commitment to provide consumer protection and satisfaction, adopts this Manual of Consumer Assistance Policies and Procedures to provide consumers with a mechanism through which they can seek redress for their complaints/ concerns regarding the Bank's products and services.

Consumer education is also a priority, and product rollouts involve communicating to clientele the

vagaries of their financial transactions and how they can be impacted on by these. Marketing materials is also reviewed by the Department for alignment with prudential regulations covering clarity and brevity of product descriptions.

## AML RISK MANAGEMENT FRAMEWORK

RMB's Board of Directors and Senior Management exercise active oversight on the bank's compliance with anti-money laundering and anti-terrorist financing laws, rules and regulations. The board has appointed a Chief Compliance Officer (CCO) who has a direct reporting line to the board through the Audit and Compliance Committee. The CCO is primarily responsible for the implementation of the Bank's Money Laundering and Terrorist Financing Prevention Program (MTPP).

The MTPP is comprehensive and risk-based, geared towards the promotion of high ethical and professional standards so that the bank may not be used, intentionally or unintentionally, for money laundering ,terrorist financing and proliferation financing. The Board requires regular review of policies and procedures covering the Bank's MTPP to ensure their relevance and compliance with prevailing standards.

RMB's compliance with AMLA is built upon a sound and rigorous "Know Your Client" (KYC) program. Composed of anti-money laundering control policies and procedures, KYC is used to determine the true identity of a client and the type of activity that is normal and expected, and to detect any activity that may be considered unusual in relation to the client's profile. This also involves proper and regular monitoring of transactions.

To control and reduce risks associated with money laundering, terrorist financing and proliferation financing, an automated system of identifying unusual or suspicious patterns of account activity has been established. Any unusual/ suspicious transactions are reported to the AML Management Committee of the Bank for its evaluation and final determination of whether the suspicion is based on reasonable grounds, for possible reporting to Anti- Money Laundering Council (AMLC).

Regular training of all Bank officers and employees is conducted to enable them to fulfill their obligations under the MTPP and AMLA, as amended, and its Revised Implementing Rules and Regulations (RIRR).

Finally, the Bank's Internal Audit Department is responsible for the periodic and independent evaluation of the bank's compliance with AMLA. It also evaluates compliance with the rules/procedures on covered and suspicious transaction reporting and record keeping and retention, as well as the adequacy and effectiveness of other existing internal controls associated with money laundering and terrorist financing.

## SUSTAINABLE FINANCING FRAMEWORK (INFORMATION ON SUSTAINABLE FINANCE)

RMB recognizes the presence of risks that may adversely influence the conditions of the country's financial stability. Following the direction undertaken by the Bangko Sentral ng Pilipinas, RMB has initiated steps to adopt an Environmental and Social Management Policy that would strengthen the implementation of sustainable practices across the institution. The policy encourages borrowers to adhere to the preservation and development of the natural, social, and cultural environment in accordance with the recommendations of the International Finance Corporation, Environmental Management Bureau, and other government agencies.

Following the proposed guidelines, new and existing borrowers whose operations may cause significant damage to the environment and society would need to undergo a more stringent credit evaluation and approval process. A database of accounts categorized based on their operational impact shall also be maintained and reported to the Risk Oversight Committee. Officers are also trained and oriented to implement the bank's policy accurately and effectively.

In compliance with the said policy, the bank currently conducts a monthly loan portfolio analysis to assess the level of environmental and social risks and identify those exposures that require monitoring due to the high level of risk inherent to the conduct of their business operations.

Portfolio assessment is prepared on a granular basis which factors in the type of business activities of loan clients. Risk categorization is based on activities that contribute the major revenue to the business. This categorization also considers the purpose of loan application, the activities of the company, social concerns to be addressed or the size, type and location of the proposed investment.

Risk categorization follows the 2009 Philippine Standard Industrial Classification (PSIC) which classifies business activities according to the following risk levels: Low, Medium, Medium/High, and Exclusion.

Result as of December 2023 are as follows:

| BANKWIDE        |               |                  |                 |             | MICROENTERPRISE |                   | REGULAR LOANS |                   | ACPC          |                   |
|-----------------|---------------|------------------|-----------------|-------------|-----------------|-------------------|---------------|-------------------|---------------|-------------------|
| PSIC Risk Level | # of Accounts | Amount in Php Mn | % No. of Accts. | % in Php    | # of Accounts   | Php (In Millions) | # of Accounts | Php (In Millions) | # of Accounts | Php (In Millions) |
| Low             | 1,811         | 776.57           | 72%             | 63%         | 933             | 101.03            | 876           | 669.62            | 2             | 5.92              |
| Medium          | 656           | 453.08           | 27%             | 37%         | 332             | 40.67             | 311           | 394.14            | 13            | 18.28             |
| Medium/High     | 2             | 1.11             | 0%              | 0%          | 0               | 0                 | 2             | 1.11              | 0             | 0.00              |
| Exclusion       | 5             | 1.85             | 0%              | 0%          | 3               | 0.65              | 2             | 1.20              | 0             | 0.00              |
| <b>Total</b>    | <b>2,474</b>  | <b>1,232.61</b>  | <b>100%</b>     | <b>100%</b> | <b>1,268</b>    | <b>142.35</b>     | <b>1,191</b>  | <b>1,066.07</b>   | <b>15</b>     | <b>24.19</b>      |

Risk categorization follows the 2009 Philippine Standard Industrial Classification (PSIC) which classifies business activities according to the following risk levels: Low, Medium, Medium/High, and Exclusion.

As of December 2023, the bank's portfolio is composed of 2,474 accounts amounting to P1,232.61 Million with 73%(1811 accounts) of which are with business activities categorized as Low Risk. Around 27% (656 accounts) are with business activities categorized as Medium Risk. Accounts categorized as Medium/High and under Exclusion are composed of two (2) and five (5) accounts, respectively.

As per policy, RMB shall have zero exposure in projects identified as under Exclusion list however exceptions are as follows:

A. Existing accounts where the Bank has already an exposure in projects that are in the Exclusion List should not exceed the IFC-allowed limit, presently at 20% of the total Revenues or Income of the borrower. The total exposure (outstanding balance) of accounts tagged under Exclusion List as of December 31, 2023 is P1.854 Million.

B. Production/distribution of alcohol (except beer and wine), tobacco and gambling/gaming, casinos and equivalent enterprise, not exceeding the combined limit at 5% of the total loan portfolio of the Bank. Relative to the first exception, same with total outstanding balance. As to the limit of 5% as of December, these accounts represent only 0.15% of the total portfolio.

The Credit Risk Management Unit of the Bank is tasked to conduct the monthly portfolio assessment and results thereof are communicated to the Lending Groups for their appropriate action. The same is also reported quarterly for the knowledge of the Bank's Risk Oversight Committee.

## INTEREST RATE GAP/ REPRICING GAP

The estimation of Non-Interest Income (NII)-at-risk starts with the Interest Rate Gap or Repricing Gap Report which measures market interest rate / profit rate exposures arising from mismatch in the repricing balances. The gap is prepared where interest rate sensitive assets, liabilities and off-balance sheet positions are distributed into a series of predefined time buckets based on the product's next repricing of remaining maturity. Balances within a time bucket are then summed to produce a gap position, where assets are reported as positive amounts and liabilities as negative amounts.

The level of risk exposure is measured by the size of the gap (i.e. the amount of repricing mismatch within a time bucket, and the length of the time gap is open).

### CONSTRUCTION OF A REPRICING GAP

- a. As a general rule, all assets, liabilities and off-balance sheet products booked in the Non Trading Book are to be included into the repricing gap according to its repricing date or remaining maturity, whichever is earlier.
- b. The positions are allocated into the designated time buckets of the gap based on the repricing profile of each rate sensitive product. A predefined tenor bucket as listed below is used. However, more granular time buckets can be applied for internal monitoring or regulatory requirement purposes.

| No. | Time Bucket               |
|-----|---------------------------|
| 1   | Less than One Month       |
| 2   | One to Three Months       |
| 3   | Three Months to One Year  |
| 4   | Two Years                 |
| 5   | Three Years               |
| 6   | Four Years                |
| 7   | Five Years                |
| 8   | Beyond Five Years         |
| 9   | Non-Rate-Sensitive Bucket |

- c. Repricing gap for each time bucket is computed by subtracting the total outflow from total inflow and can result in either positive or negative gap.

The major limitation of the use of repricing gap in measuring Interest Rate Risk in the Banking Book (IRRBB) is the inability to capture real-time repricing of balance sheet items as the positions are captured in the pre-defined tenor buckets. Also, it is a static approach without considering evolution of the balance sheet (e.g. new business assumptions, change in strategies, etc).

### INTERPRETATION OF THE REPRICING GAP

- Gapping activities are part and parcel of banking business taking higher mismatch position may imply higher risk appetite and potential higher returns. A bank may have a positive, negative or neutral gap profile that can be interpreted as follows:

| Interest Rate Gap | Description  | Rising Interest Rates  | Falling Interest Rates |
|-------------------|--|--|------------------------|
| Positive Gap      | Rate sensitive assets reprice faster than rate sensitive liabilities | Opportunity  | Risk                   |
| Negative Gap      | Rate sensitive liabilities reprice faster than rate sensitive assets | Risk   | Opportunity            |
| Neutral Gap       | Rate sensitive assets equal rate sensitive liabilities               | Not free of interest rate risk. Still exposed to basis risk. |                        |



## LIMITATIONS OF THE REPRICING GAP

- The major limitation of the use of repricing gap in measuring IRRBB is the inability to capture real-time repricing of balance sheet items as the positions are captured in the pre-defined tenor buckets. Also, it is a static approach without considering evolution of the balance sheet (e.g. new business assumptions, change in strategies, etc.)

| Rizal MicroBank<br>INTEREST RATE GAP<br>As of December 31, 2023 |                     |                     |                          |               |                           |                      |                    |                 |
|---|---------------------|---------------------|--------------------------|---------------|---------------------------|----------------------|--------------------|-----------------|
| Resources (In Millions PHP)                                     | Less than one month | One to three months | Three months to one year | Two years     | Three Years to five years | More than five years | Non-Rate Sensitive | Total           |
| Cash (COCI)   | -                   | -                   | -                        | -             | -                         | -                    | 13.65              | 13.65           |
| Placements (Due from BSP & Other Banks)                         | 93.95               | -                   | -                        | -             | -                         | -                    | 119.61             | 213.56          |
| Total Investments (invs. Sec. & E equity Inv)                   | -                   | -                   | -                        | -             | -                         | -                    | 13.67              | 13.67           |
| Total Loans (L & R)   | 111.41              | 288.01              | 346.59                   | 232.79        | 215.06                    | 18.51                | 91.99              | 1,304.36        |
| Other Resources (all others)                                    | -                   | -                   | -                        | -             | -                         | -                    | 134.55             | 134.55          |
| <b>Total Resources</b>  | <b>205.36</b>       | <b>288.01</b>       | <b>346.59</b>            | <b>232.79</b> | <b>215.06</b>             | <b>18.51</b>         | <b>373.47</b>      | <b>1,679.79</b> |
| <b>Liabilities &amp; Capital Funds</b>                          |                     |                     |                          |               |                           |                      |                    |                 |
| Deposit Liabilities   | 281.31              | 256.02              | 146.60                   | 2.47          | -                         | -                    | 306.00             | 992.38          |
| Contractual   | -                   | -                   | -                        | -             | -                         | -                    | 119.53             | 119.53          |
| Savings Deposits  | -                   | -                   | -                        | -             | -                         | -                    | 150.89             | 150.89          |
| Demand Deposits   | -                   | -                   | -                        | -             | -                         | -                    | 35.58              | 35.58           |
| Term Deposits   | 281.31              | 256.02              | 146.60                   | 2.47          | -                         | -                    | -                  | 686.39          |
| Accrued Interest Payable  | -                   | -                   | -                        | -             | -                         | -                    | 7.61               | 7.61            |
| Accrued Taxes and Other Expenses                                | -                   | -                   | -                        | -             | -                         | -                    | 13.57              | 13.57           |
| Other Liabilities   | 40.00               | -                   | -                        | -             | -                         | -                    | 119.23             | 159.23          |
| <b>Total Liabilities</b>  | <b>321.31</b>       | <b>256.02</b>       | <b>146.60</b>            | <b>2.47</b>   | <b>-</b>                  | <b>-</b>             | <b>446.41</b>      | <b>1,172.80</b> |
| <b>Capital Funds</b>  |                     |                     |                          |               |                           |                      | <b>506.99</b>      | <b>506.99</b>   |
| <b>Total Liabilities and Capital Funds</b>                      | <b>321.31</b>       | <b>256.02</b>       | <b>146.60</b>            | <b>2.47</b>   | <b>-</b>                  | <b>-</b>             | <b>953.40</b>      | <b>1,679.79</b> |
| <b>On-book gap</b>  | <b>(115.94)</b>     | <b>31.99</b>        | <b>199.99</b>            | <b>230.33</b> | <b>215.06</b>             | <b>18.51</b>         | <b>(579.93)</b>    | <b>(0.00)</b>   |
| <b>Cumulative on-book gap</b>                                   | <b>(115.94)</b>     | <b>(83.95)</b>      | <b>116.04</b>            | <b>346.37</b> | <b>561.42</b>             | <b>579.93</b>        | <b>(0.00)</b>      | <b>(0.00)</b>   |
| Contingent Resources  | -                   | -                   | -                        | -             | -                         | -                    | -                  | -               |
| Contingent Liabilities  | -                   | -                   | -                        | -             | -                         | -                    | -                  | -               |
| <b>Total gap</b>  | <b>-</b>            | <b>-</b>            | <b>-</b>                 | <b>-</b>      | <b>-</b>                  | <b>-</b>             | <b>-</b>           | <b>-</b>        |
| <b>Cumulative off-book gap</b>                                  | <b>-</b>            | <b>-</b>            | <b>-</b>                 | <b>-</b>      | <b>-</b>                  | <b>-</b>             | <b>-</b>           | <b>-</b>        |
| <b>Cumulative total gap</b>                                     | <b>(115.94)</b>     | <b>(83.95)</b>      | <b>116.04</b>            | <b>346.37</b> | <b>561.42</b>             | <b>579.93</b>        | <b>(0.00)</b>      | <b>(0.00)</b>   |

## LIQUIDITY STRESS TESTING METHODOLOGY (LST)

Liquidity Stress Testing (LST) is a forward looking assessment of the Bank's resilience to a series of extreme yet plausible scenarios. These events are economic occurrences which may have an effect on the liquidity position of the Bank. Stressing on a liquidity event provides the Bank a better understanding of weaknesses and vulnerabilities in the financial system and can be an important input into the Bank's planning decisions.

The objectives of LST are as follows:

- Identify vulnerabilities to external shocks, fine tune the liquidity / funding strategies and build up effectual contingency.
- Determine the amount of liquidity buffer required for potential liquidity shocks and for better management of liquidity buffers.
- Determine the contingency planning and shape the strategy and tactics to manage events of liquidity stress.
- Engage the Risk Oversight Committee (ROC) and the Assets and Liabilities Management Committee (ALCO) participation in taking proactive measures based on the stress test results and integrate stress testing outputs into the decision making process.

### Liquidity Stress Testing Methodology

The LST Methodology is formulated taking into account the Bank's business operating model as well as Bangko Sentral ng Pilipinas (BSP) Liquidity Coverage Ratio (LCR) requirements and other standards outlined in BSP Circular 981: Guidelines on Liquidity Risk Management, and Circular No. 989: Guidelines on the Conduct of Stress Testing Exercises. In general, the process and principles underlying stress testing is discussed in the Stress Testing Framework.

The LST Methodology is structured into the following building blocks:

#### 1. Identifying Key Risk Drivers

- Key risk drivers which are defined as portfolio or exposure more than 5% of balance sheet size or key components of funding source, are identified for portfolios that are deemed to have material impact.

#### 2. Devising Stress Scenarios

- The stress scenarios are designed to incorporate major funding and liquidity risks that the Parent Bank might be exposed to. The following are three major liquidity events as specified in BSP Circular 981.

#### Stress Testing Scenario:

| Type of Event/ Stress Scenario    | Definition  |
|-----------------------------------|---|
| Institution Specific Crisis (ISC) | This is a situation whereby liquidity challenges are name specific. This may arise from loss of public confidence in either the Bank or its subsidiaries and affiliates. As a result, mass withdrawal of deposits and LFP is assumed. Also, credit worthiness of the Bank is compromised.   |
| General Market Crisis (GMC)       | This is a situation where systemic liquidity problems are experienced at the market/ industry level due to major financial debacles, economic crisis or other catastrophic event. This may be characterized by a market-wide liquidity squeeze, substantial discounts needed to sell or repo assets, settlements disruptions affecting one or more payment or settlement systems. |
| Combined Crisis (CC)              | This is a situation where ISC and GMC scenarios are experienced simultaneously by RCBC. It can be a global crisis which is affecting the financial institutions industry (globally or regionally) and also has name-specific challenges for RCBC.   |

| Rizal MicroBank, Inc.<br>LIQUIDITY STRESS GAP SUMMARY<br>GENERAL MARKET<br>December 31, 2023 |                      |                    |                     |                      |   |
|--|----------------------|--------------------|---------------------|----------------------|---|
|  | Total                | 20%                | 30%                 | 40%                  | **  |
|  | (In Php)             | Withdrawal         | Withdrawal          | Withdrawal           |   |
| <b>ASSETS</b>  |                      |                    |                     |                      |   |
| <b>INTERBANK (Cash, DFOB,DDA )</b>   | 168,441,492          | 168,441,492        | 168,441,492         | 168,441,492          | <b>1 month</b>                              |
| <b>IBCL /RRP &amp; ODF</b>   | 105,946,353          | 52,973,177         | 52,973,177          | 52,973,177           | <b>50% reduction</b>                        |
| <b>LOANS &amp; RECEIVABLES</b>   | 1,249,298,682        | -                  | -                   | -                    | <b>0% loan payoff</b>                       |
| <b>TOTAL ASSETS</b>  | <b>1,523,686,527</b> | <b>221,414,668</b> | <b>221,414,668</b>  | <b>221,414,668</b>   |   |
| <b>LESS :</b>  |                      |                    |                     |                      |   |
| <b>TOTAL DEPOSITS</b>  | 1,049,954,749        | 209,990,949.74     | 314,986,424.60      | 419,981,899.47       |   |
| <b>AVAILABLE FUND</b>  | 473,731,778          | 11,423,718         | (93,571,756)        | (198,567,231)        |   |
| <b>ADD / DEDUCT :</b>  |                      |                    |                     |                      |   |
| <b>OTHERS</b>  |                      |                    |                     |                      | <b>Pay-off of 1 Mo Interbank Borrowings</b> |
| <b>LINES AVAILABLE*</b>  | 200,000,000          | -                  | -                   | -                    | <b>100% Line reduction</b>                  |
| <b>TOTAL AVAILABLE FUNDING</b>   | <b>673,731,778</b>   | <b>11,423,718</b>  | <b>(93,571,756)</b> | <b>(198,567,231)</b> |   |

| Rizal MicroBank, Inc.<br>LIQUIDITY STRESS GAP SUMMARY<br>INSTITUTION-SPECIFIC<br>December 31, 2023 |                      |                    |                      |                      |   |
|--|----------------------|--------------------|----------------------|----------------------|---|
|  | Total                | 20%                | 30%                  | 40%                  | **  |
|  | (In Php)             | Withdrawal         | Withdrawal           | Withdrawal           |   |
| <b>ASSETS</b>  |                      |                    |                      |                      |   |
| <b>INTERBANK (Cash, DFOB,DDA )</b>   | 168,441,492          | 168,441,492        | 168,441,492          | 168,441,492          | <b>1 month</b>                              |
| <b>IBCL /RRP &amp; ODF</b>   | 105,946,353          | 84,757,082         | 84,757,082           | 84,757,082           | <b>80% (20% reduction)</b>                  |
| <b>LOANS &amp; RECEIVABLES</b>   | 1,249,298,682        | 124,929,868        | 124,929,868          | 124,929,868          | <b>10% loan payoff</b>                      |
| <b>TOTAL ASSETS</b>  | <b>1,523,686,527</b> | <b>378,128,442</b> | <b>378,128,442</b>   | <b>378,128,442</b>   |   |
| <b>LESS :</b>  |                      |                    |                      |                      |   |
| <b>TOTAL DEPOSITS</b>  | 1,049,954,749        | 209,990,949.74     | 524,977,374.34       | 629,972,849.21       | <b>20% withdrawal</b>                       |
| <b>AVAILABLE FUND</b>  | <b>473,731,778</b>   | <b>168,137,493</b> | <b>(146,848,932)</b> | <b>(251,844,407)</b> |   |
| <b>ADD / DEDUCT :</b>  |                      |                    |                      |                      |   |
| <b>OTHERS</b>  |                      |                    |                      |                      | <b>Pay-off of 1 Mo Interbank Borrowings</b> |
| <b>LINES AVAILABLE*</b>  | 200,000,000          | 100,000,000        | 100,000,000          | 100,000,000          | <b>50% line reduction</b>                   |
| <b>TOTAL AVAILABLE FUNDING</b>   | <b>673,731,778</b>   | <b>268,137,493</b> | <b>(46,848,932)</b>  | <b>(151,844,407)</b> |   |



## LIQUIDITY COVERAGE RATIO (LCR)

Liquidity Coverage Ratio (LCR) Report shows the LCR of the Bank which is the ratio of highly-liquid assets over net cash outflows. This ratio is used to measure if the Bank can meet or settle short-term obligations.

This is accomplished and submitted within 15 banking days after the end of the reference month to BSP.

Source Documents:

### Document

Schedule of Deposit Liabilities (enhanced)  
FRP SOCSIE BS  
FRP LOANS 39  
FRP DEPLIAB 22

### Process Owner

Accounting Supervisor – RRCU  
Accounting Supervisor – RRCU  
Accounting Supervisor – RRCU  
Accounting Supervisor – RRCU

*Actual Report as of December 31, 2023*

| PART I. CALCULATION OF LIQUIDITY COVERAGE RATIO<br>(In Absolute Amount)              |                |                       |
|--|----------------|-----------------------|
| Item   | Nature of Item | Weighted Amount       |
| <b>A. Total Stock of High-Quality Liquid Assets (After Cap) [Net of A.3 and A.4]</b> |                | <b>127,583,880.10</b> |
| A.1 Stock of Level 1 Assets  |                | 127,583,880.10        |
| A.2 Stock of Level 2 Assets  |                | -                     |
| A.3 Total Stock of High Quality Liquid Assets (Before Cap) [Sum of A.1 and A.2]      |                | 127,583,880.10        |
| A.4 Adjustment for 40% Cap on Level 2 Assets   |                | -                     |
| <b>B. Total Net Cash Outflows [Net of B.1 and B.2]</b>                               |                | <b>91,321,887.76</b>  |
| B.1 Total Expected Cash Outflows   |                | 149,280,166.04        |
| B.2 Total Expected Cash Inflows Before Ceiling                                       |                | 57,958,278.28         |
| B.3 Adjustment for 75% Ceiling on Cash Inflows                                       |                | -                     |
| B.4 Total Expected Cash Inflows After Ceiling  |                | 57,958,278.28         |
| <b>C. LIQUIDITY COVERAGE RATIO [A/B]</b>   |                | <b>139.71%</b>        |

## NET STABLE FUNDING RATIO (NSFR)

For the long-term resilience of the bank against liquidity risk, it shall maintain a stable funding profile in relation to the composition of its assets and off-balance sheet activities. The Net Stable Funding Ratio (NSFR) seeks to meet this objective by limiting overreliance on short-term wholesale funding and promoting enhanced assessment of funding risk across all on- and off balance sheet accounts. The NSFR complements the Liquidity coverage Ratio which promotes short term resilience of the bank's liquidity profile.

Frequency of Submission is monthly and the deadline is 15 banking/business days from BSP measurement date.

Source Documents:

### Document

Trial Balance  
Loans as to Maturity Report  
CAR Report  
Schedule of Deposits

### Process Owner

Accounting Supervisor  
Accounting Head  
Accounting Head  
Nextbank System

*Actual Report as of December 31, 2023*

| CALCULATION OF NET STABLE FUNDING RATIO<br>(In Absolute Amount) |                         |
|---|-------------------------|
| Item  |                         |
| <b>A. Available Stable Funding</b>                              | <b>1,397,151,455.95</b> |
| Capital   | 489,411,307.02          |
| Retail Deposits   | 907,740,148.93          |
| Wholesale Deposits  | 0.00                    |
| Secured and Unsecured Funding                                   | 0.00                    |
| Other Liabilities and Equities                                  | 0.00                    |
| <b>B. Required Stable Funding</b>                               | <b>1,030,950,731.18</b> |
| NSFR High-Quality Liquid Assets (HQLA)                          | 0.00                    |
| Deposits Held at other Financial Institutions                   | 49,812,064.86           |
| Performing Loans and Non-HQLA Securities                        | 618,823,957.04          |
| Other assets  | 362,314,709.29          |
| Off-Balance Sheet Exposures                                     | 0.00                    |
| <b>C. Net Stable Funding Ratio [A/B]</b>                        | <b>1.36</b>             |

# CORPORATE GOVERNANCE



**RIZAL  
MicroBank**  
A Thrift Bank of RCBC

## CORPORATE GOVERNANCE STRUCTURE AND PRACTICES

The corporate governance of Rizal MicroBank is anchored on the principles of fairness, responsibility, transparency and accountability. The Board of Directors is committed to these principles to guide the Bank in its pursuit of its corporate goals through policies and practices that are consistent with applicable banking laws, rules, regulations and industry best practices.

The Board of Directors is primarily responsible for overseeing the management and governance of the Bank. It is responsible for monitoring the performance of Senior Management to ensure the effective implementation of the bank's strategic objectives, risk strategy, corporate governance, and corporate values. Its principal objective is to protect the interests of its stakeholders and create value for them.

The President is the only executive director of the Bank. This ensures the independence of the Board from the views of senior management. Majority of the non-executive directors are seasoned bankers, thus possessing the qualifications and stature that enable them to effectively participate in the deliberations of the Board.

The directors elected in the annual meeting of the stockholders serve a one-year term and until their successors are elected and qualified. Any vacancy in the board occurring for any reason other than by removal of a director by the stockholders or by the expiration of term may be filled by the vote of at least a majority of the remaining directors, if still constituting a quorum. A director so elected to fill a vacancy shall serve only for the unexpired term of his predecessor.

## SELECTION PROCESS FOR THE BOARD AND SENIOR MANAGEMENT

1. The Corporate Governance Committee shortlists all candidates nominated to become members of the Board of Directors in accordance with the qualifications and disqualifications enumerated in the Bank's Manual of Corporate Governance and the prevailing BSP regulations. The Committee likewise reviews and evaluates the qualifications of persons nominated to officership positions requiring appointment by the Board of Directors.
2. The following factors are considered by the Committee in determining whether a person is fit and proper for the position of a director:

- a. integrity/probity;
  - b. physical/mental fitness;
  - c. relevant education/financial literacy/ training;
  - d. possession of competencies relevant to the job, such as knowledge/experience, skills, diligence, and independence of mind; and
  - e. availability of time to fully carry out responsibilities.
3. In determining the optimum number of positions which a nominee may hold, the Committee considers the following guidelines:
    - a. nature of the business of the corporations where he is a director;
    - b. age of the Director;
    - c. number of directorships/active memberships and officerships in other corporations or organizations; and
    - d. possible conflict of interest.
  4. For officership positions, the following factors are considered in determining whether the person is fit and proper to be an officer:
    - a. integrity/probity;
    - b. education/training;
    - c. possession of competencies relevant to the function, such as knowledge and experience, skills and diligence

## BOARD'S OVERALL RESPONSIBILITY

The Board is responsible for approving the Bank's strategic objectives and business plans, taking into consideration the Bank's long-term financial goals, risk tolerance level, and effective management of risks. It has established a system of measuring performance against targets through regular monitoring and has ensured that actions are taken to correct shortfalls.

The Board also ensures that the Bank observes a high standard of integrity in its dealings with the public. It sets the tone of good governance at the top by upholding sound corporate values, codes of conduct and instilling the culture of compliance in itself, the senior management and other employees. It oversees the implementation of the Bank's whistleblowing policy which aims to inculcate moral uprightness among bank personnel and give them the confidence to raise concerns related to fraud or irregularity in the workplace.





The Board is also responsible for the selection of members of senior management and heads of control functions, and the monitoring of their performance.

At the same time, the Board is responsible for approving and overseeing the implementation of the Bank's corporate governance framework. This involves defining the governance structure and practices such as:

- The conduct of regular board meetings that promote critical discussion of issues,
- Creation of board-level committees, development of policies on internal and external commitments of directors,
- Access of directors to financial information, performance evaluation of the board, the committees, the President, and the individual directors;
- Development of remuneration and retirement policies, corporate governance policies, and policies on the handling of related party transactions.

Finally, the Board is likewise responsible for approving and overseeing the implementation of the bank's risk governance framework and the systems of checks and balances. This involves defining the risk appetite; adhering to the risk appetite statement, risk policy and risk limits, and policies and procedures on risk management; and defining the organizational responsibilities following the three lines of defense framework: the business units, the risk management and compliance functions, and the internal audit functions.

## THE CHAIRMAN OF THE BOARD

The Chairman leads the Board of Directors. He is mainly responsible for the proper governance of the Bank and decides on all matters included in the agenda of the stockholders and BOD meetings. He provides leadership and is responsible for ensuring the effective functioning of the board, including maintaining a relationship of trust with board members. He ensures that meeting agenda focuses on strategic matters including discussion on risk appetites, and key governance concerns and enable a sound decision-making process. He encourages and promotes regular attendance and active participation and involvement in critical discussions, and enables the discussion of dissenting views during deliberations. He ensures that all members of the Board are given sufficient information and time to study carefully and responsibly issues that are taken up in board meetings.

## BOARD COMPOSITION

| Name of Director          | Type of Directorship<br>(executive<br>non-executive,<br>independent) | Principal stockholder<br>represented if<br>nominee | Number of<br>years served as<br>director | Number of direct<br>and indirect<br>shares held | Percentage of shares held<br>to the total outstanding<br>shares |
|---------------------------|--|--|--|---|---|
| Eugene Acevedo*           | Non-executive  | n/a  | 4  | 1   | 0%  |
| John Thomas Deveras* **   | Non-executive  | n/a  | 14                                       | 1   | 0%  |
| Xavier Y. Zialcita* **    | Non-executive  | n/a  | 10 mos.                                  | 1   | 0%  |
| Raymundo Roxas*           | Executive  | n/a  | 7  | 1   | 0%  |
| Dennis Bancod*            | Non-executive  | n/a  | 14                                       | 1   | 0%  |
| Zenaida Torres*           | Non-executive  | n/a  | 13                                       | 1   | 0%  |
| Alfredo del Rosario, Jr.* | Non-executive  | n/a  | 8  | 1   | 0%  |
| Ma. Angela E. Ignacio*    | Independent  | n/a  | 2  | 1   | 0%  |
| Vicente LL. Ramirez Jr.*  | Independent  | n/a  | 2  | 1   | 0%  |
| Leticia A. Moreno*        | Independent  | n/a  | 1  | 1   | 0%  |

\* Rizal Microbank is a fully owned subsidiary of RCBC. As such all directors are nominated by RCBC as approved during the Annual Stockholders meeting in April 28, 2023.

\*\* Director Zialcita replaced Director Deveras upon his retirement from the RCBC Group effective February 2023.

**EXECUTIVE COMMITTEE**

| Executive Committee      |          | Mar - R | May - R | June - R | Aug - R | Sept - R | TOTAL | ATTENDANCE |      |
|--------------------------|----------|---------|---------|----------|---------|----------|-------|------------|------|
| Eugene S. Acevedo*       | Chairman | P       | P       | P        | P       | P        | 5     | 5          | 100% |
| Alfredo del Rosario, Jr. | Member   | P       | P       | P        | P       | P        | 5     | 5          | 100% |
| Dennis Bancod            | Member   | P       | P       | P        | P       | A        | 5     | 4          | 80%  |
| Raymundo Roxas           | Member   | P       | P       | P        | P       | P        | 5     | 5          | 100% |
| Zenaida Torres           | Member   | P       | P       | P        | P       | P        | 5     | 5          | 100% |
| Xavier Y. Zialcita**     | Observer | P       | P       | P        | P       | A        | 5     | 4          | 80%  |

\* Chairman Acevedo replaced Director Deveras in his capacity as Chairman of the Executive Committee upon his retirement effective February 2023.

\*\* Director Zialcita was appointed as an observer in the Committee effective February 2023.

**LIST OF BOARD-LEVEL COMMITTEES****Audit & Compliance Committee**

| Audit & Compliance Committee |          | Jan - R | Apr - R | July - R | Oct - R | TOTAL | ATTENDANCE |      |
|------------------------------|----------|---------|---------|----------|---------|-------|------------|------|
| Ma. Angela E. Ignacio        | Chairman | P       | P       | A        | P       | 4     | 3          | 75%  |
| John Thomas Deveras*         | Member   | P       |         |          |         | 1     | 1          | 100% |
| Xavier Y. Zialcita*          | Member   |         | P       | P        | P       | 3     | 3          | 100% |
| Zenaida Torres               | Member   | P       | P       | P        | P       | 4     | 4          | 100% |
| Vicente LL. Ramirez, Jr.     | Member   | P       | P       | P        | P       | 4     | 4          | 100% |
| Leticia A. Moreno            | Member   | P       | P       | P        | P       | 4     | 4          | 100% |

\* Director Zialcita replaced Director Deveras in his capacity as a member of the Audit & Compliance Committee upon his retirement effective February 2023.

The Audit & Compliance Committee is composed of five members of the Board of Directors, all of whom are non-executive directors. Three are independent directors, including the Chairman. They possess accounting, auditing or related financial management expertise/ experience.

Upon their appointments during the Annual Stockholders Meeting held on April 28, 2023, the members of the Audit & Compliance Committee are:

- Ma. Angela E. Ignacio – Chairman
- Xavier Y. Zialcita – Member
- Zenaida F. Torres – Member
- Vicente LL. Ramirez, Jr. – Member
- Leticia A. Moreno – Member

The core responsibilities of the Audit Committee & Compliance include the following:

- To oversee the Bank's financial reporting framework. The committee shall oversee the financial reporting process, practices and control to ensure that the reporting framework enables the generation and preparation of accurate and comprehensive information and reports.

- To oversee the internal and external audit functions. The committee is responsible for the appointment/selection, remuneration, and dismissal of the internal auditor. It also reviews and approves the audit scope and frequency and ensures that the scope covers the review of the effectiveness of the Bank's internal controls, including financial, operational, and compliance controls, and risk management system. The committee is also responsible for the appointment of an independent external auditor who reports directly to the Audit and Compliance Committee. It likewise reviews and approves the engagement contract with the external auditor and ensures that the scope of audit covers areas specifically prescribed by the Bangko Sentral and other regulators.
- To monitor and evaluate the adequacy and effectiveness of the Bank's internal control systems. The committee oversees the implementation of internal control policies and activities and ensures that a periodic assessment of the internal control system is conducted to identify weaknesses and evaluate its robustness considering the Bank's risk profile and strategic direction.
- To oversee implementation of corrective actions based on key audit reports. The committee ensures that Senior Management is taking necessary measures in a timely manner to address the weaknesses, noncompliance with policies, banking laws, rules and regulations, and other issues identified by auditors and other control functions.
- To have explicit authority to investigate any matter within its terms of reference, full access to and cooperation by management and full discretion to invite any director or executive officer to attend its meeting.
- To establish and maintain whistleblowing mechanisms by which officers and staff can, without fear of reprisal, raise concerns about possible improprieties or malpractices in matters of financial reporting, internal control, auditing or other issues to a person or independent entity which has the authority to take corrective action. It ensures that channels and procedures are in place for the independent investigation, appropriate follow-up action, and subsequent resolution of the reported irregularity.
- To assist the Board in its oversight functions over the Bank's compliance with legal and regulatory requirements, assessment and management of enterprise risks including credit, market, liquidity, operational, and legal risks, and audit process and the performance of the Bank's internal audit organization and external auditors, including external auditors' qualifications and independence.

### Corporate Governance Committee

| Corporate Governance Committee |          | Jan - R | Apr - R | July - R | Oct - R | TOTAL | ATTENDANCE |      |
|--------------------------------|----------|---------|---------|----------|---------|-------|------------|------|
| Vicente LL. Ramirez Jr.        | Chairman | P       | P       | P        | P       | 4     | 4          | 100% |
| Alfredo del Rosario, Jr.       | Member   | P       | P       | P        | P       | 4     | 4          | 100% |
| Zenaida Torres                 | Member   | P       | P       | P        | P       | 4     | 4          | 100% |
| Ma. Angela E. Ignacio          | Member   | P       | P       | A        | P       | 4     | 3          | 75%  |
| Leticia A. Moreno              | Member   | P       | P       | P        | P       | 4     | 4          | 100% |

The Corporate Governance Committee is composed of five members of the Board of Directors, all of whom are non-executive directors. Three are independent directors, including the chairperson. The committee has a written charter that describes the duties and responsibilities of its members.

Upon their appointments during the Annual Stockholders Meeting held on April 28, 2023, the members of the Corporate Governance Committee are:

- Vicente LL. Ramirez Jr. – Chairman
- Alfredo S. Del Rosario – Member
- Zenaida F. Torres – Member
- Ma. Angela E. Ignacio – Member
- Leticia A. Moreno – Member

The functions of the Corporate Governance Committee include the following:

- To oversee the nomination process for members of the board of directors and for positions appointed by the board of directors. The committee review and evaluate the qualifications of all persons nominated to the board as well as other positions requiring appointment by the board of directors. It is also responsible for the recommendation of matters pertaining to the assignment to board committees, as well as succession plan for the members of the board of directors and senior management.
- To oversee the periodic performance evaluation of the board of directors, board-level committees, and senior management, and to conduct an annual self-evaluation of its performance.
- To oversee the continuing education of directors, and thus, ensure the allocation of adequate time and resources. The committee shall establish and ensure effective implementation of policy for onboarding/orientation program for first time directors and annual continuing education for all directors.
- To oversee the design and operation of the remuneration and incentives policy. The committee ensures that the remuneration and other incentives policy is aligned with operating and risk culture as well as with the strategic and financial interest of Bank, promotes good performance and conveys acceptable risk-taking behavior defined under its Code of Ethics, and complies with legal and regulatory requirements. It also monitors and reviews the remuneration and other incentives policy including plans, processes, and outcomes to ensure that it operates and achieves the objectives as intended.

### **Risk Oversight Committee**

| Risk Oversight Committee |          | Jan - R | Apr - R | July - R | Oct - R | TOTAL | ATTENDANCE |      |
|--------------------------|----------|---------|---------|----------|---------|-------|------------|------|
| Leticia A. Moreno        | Chairman | P       | P       | P        | P       | 4     | 4          | 100% |
| John Thomas Deveras*     | Member   | P       |         |          |         | 1     | 1          | 100% |
| Xavier Y. Zialcita*      | Member   |         | P       | P        | P       | 3     | 3          | 100% |
| Zenaida Torres           | Member   | P       | P       | P        | P       | 4     | 4          | 100% |
| Ma. Angela E. Ignacio    | Member   | P       | P       | A        | P       | 4     | 4          | 75%  |
| Vicente LL. Ramirez Jr.  | Member   | P       | P       | P        | P       | 4     | 4          | 100% |

\* Director Zialcita replaced Director Deveras in his capacity as a member of the Risk Oversight Committee upon his retirement effective February 2023.

The Risk Oversight Committee is composed of five members of the Board of Directors, all of whom are nonexecutive directors. Three are independent directors, including the chairperson. The members of the Risk Oversight Committee possess a range of expertise as well as adequate knowledge on risk management issues and practices that enable them to develop appropriate strategies for preventing or mitigating losses.

Upon their appointments during the Annual Stockholders Meeting held on April 28, 2023, the members of the Risk Oversight Committee are:

- Leticia A. Moreno - Chairman
- Xavier Y. Zialcita - Member
- Zenaida F. Torres - Member
- Ma. Angela E. Ignacio - Member
- Vicente LL. Ramirez, Jr. - Member

In general, the Risk Oversight Committee is responsible for the development and oversight of the bank's risk management program. The core responsibilities of the Risk Oversight Committee include the following:

- To oversee the risk management framework of the Bank. It oversees the enterprise risk management and periodically reviews the risk management systems and recovery plans. It ensures that corrective actions are promptly implemented to address risk management concerns.



- To define the risk appetite and review the risk profile of the Bank to ensure that the risk is not higher than the risk appetite determined by the board. It ensures that the current and emerging risk exposures are consistent with the bank's strategic direction and overall risk appetite. The committee assess the overall status of adherence to the risk appetite based on the quality of compliance with the limit structure, policies, and procedures relating to risk management and control, and performance of management, among others.
- To oversee the risk management function. It is responsible for the appointment/selection, remuneration, and dismissal of the chief risk officer (CRO). . It ensures that the risk management function has adequate resources to effectively oversee the risk-taking activities of the bank.
- To report regularly to the Board of Directors on the Bank's over-all risk exposure and actions taken to mitigate the risks, and to recommend further action or plans as necessary.

### ***Related Party Transactions Committee***

| Related Party Transactions Committee |          | Apr - R | July - R | TOTAL | ATTENDANCE |      |
|--------------------------------------|----------|---------|----------|-------|------------|------|
| Ma. Angela E. Ignacio                | Chairman | P       | A        | 2     | 2          | 100% |
| Vicente LL. Ramirez Jr.              | Chairman | P       | P        | 2     | 2          | 100% |
| Leticia A. Moreno                    | Member   | P       | P        | 2     | 2          | 100% |

The Related Party Transactions Committee is composed of three members of the Board of Directors, all of whom are independent directors. The committee ensures that related party transactions are conducted at arm's length basis or on terms no less favorable to the Bank than terms available to any unrelated third party under the same or similar circumstances.

Upon their appointments during the Annual Stockholders Meeting held on April 28, 2023, the members of the Related Party Transactions Committee are as follows:

- Ma. Angela E. Ignacio – Chairman
- Vicente LL. Ramirez Jr. - Member
- Leticia A. Moreno - Member

The duties and responsibilities of the RPT Committee include the following:

- To evaluate on an ongoing basis existing relations between and among businesses and counterparties to ensure that all related parties are continuously identified, transactions are monitored and subsequent changes in relationships with counterparties are captured.
- To evaluate all material related party transactions and ensure that these are not undertaken on more favorable economic terms (e.g., price, commissions, interest rates, fees, tenor, collateral requirement) to such related parties than similar transactions with non-related parties under similar circumstances and that no corporate or business resources of the Bank are misappropriated or misapplied, and to determine any potential reputational risk issues that may arise as a result of or in connection with the transactions.
- To evaluate material related party transactions to ensure that the terms and conditions are also available to unrelated parties under similar circumstances.
- To ensure transparency and appropriate disclosure of RPT transactions to the regulating and supervising authorities.
- To report to the board of directors on a regular basis, the status and aggregate exposures to each related party and the total amount of exposures to all related parties.
- To ensure that policies and procedures are in place for the regular reporting by banking units of their existing RPTs as well as potential RPTs.

- To ensure that transactions with related parties, including write-off of exposures are subject to periodic independent review or audit.
- To oversee the implementation of the system of identifying, monitoring, measuring, controlling and reporting RPTs, including the periodic review of RPT policies and procedures.

#### DIRECTORS' ATTENDANCE AT BOARD AND COMMITTEE MEETINGS

| Board of Directors Meeting |               | Jan - R | Feb - S | Apr - R | Apr - O | July - R | Oct - R | Nov - S | TOTAL | ATTENDANCE |
|----------------------------|---------------|---------|---------|---------|---------|----------|---------|---------|-------|------------|
| Eugene Acevedo             | Chairman      | P       | P       | P       | P       | P        | P       | P       | 7     | 100%       |
| John Thomas Deveras*       | Vice-Chairman | P       |         |         |         |          |         |         | 1     | 100%       |
| Xavier Y. Zialcita*        | Member        |         | P       | P       | P       | P        | P       | P       | 6     | 100%       |
| Dennis C. Bancod           | Member        | P       | A       | P       | P       | P        | P       | P       | 7     | 86%        |
| Zenaida F. Torres          | Member        | P       | P       | P       | P       | P        | P       | P       | 7     | 100%       |
| Alfredo del Rosario, Jr.   | Member        | P       | P       | P       | P       | P        | P       | P       | 7     | 100%       |
| Ma. Angela E. Ignacio      | Member        | P       | P       | P       | P       | P        | P       | P       | 7     | 100%       |
| Vicente LL. Ramirez Jr.    | Member        | P       | P       | P       | P       | P        | P       | P       | 7     | 100%       |
| Leticia A. Moreno          | Member        | P       | P       | P       | P       | P        | P       | P       | 7     | 100%       |

\* Director Zialcita replaced Director Deveras in his capacity as a member of the Risk Oversight Committee upon his retirement effective February 2023.

#### PERFORMANCE ASSESSMENT PROGRAM

The Corporate Governance Committee oversees the periodic performance evaluation of the Board of Directors, board level committees and the President.

The Board of Directors conducts an annual self-assessment of the Board as a whole, of themselves as individual members and as members of the Board committees. Each member of the committee assesses the performance of the other members and the committee as a whole. This includes an evaluation of the exercise of independent judgment, integrity and objectivity of each member and of the Board as a whole. The Board likewise assesses the performance of the President.

#### ORIENTATION AND EDUCATION PROGRAM

Employee education, learning and development are essential to the Bank's growth strategy as it is constantly challenged to deal and cope with the demands and pressure brought by rapidly changing environment. The Human Resources Department, with the support of the Management Committee, continues to provide learning and development activities for the employees in pursuit of the Bank's commitment to strengthen employees' competencies across all job levels.

By ensuring that the Bank staff and officers are trained, as well as immersed in best practices to provide the exceptional quality of service to its clients, the Human Resources Department, in coordination with Senior Management, focused on providing various skills- based training programs to continue honing skills and building capacities. These programs include (1) the enhanced employee orientation for new hires to equip them with product and technical knowledge, as well as bank's policy awareness; (2) customer care; (3) account specialists' technical trainings; (4) branch services and support personnel trainings; (5) credit management trainings; and consultative selling for bank officers ; (6) business communication skills; (7) programs designed to help employees comply with regulatory requirements; and (8) mental health topics such as emotional intelligence, among others. The Bank also nominated employees to attend external training programs on treasury, marketing, internal auditing; data analytics, basic life support, first aid training, occupational safety and health, as well as other remote learning programs related to compliance and risk management. Further, the Bank also ensured that employees are continuously apprised on the updated circulars and regulations by conducting electronic learning sessions on Anti-Money Laundering, Information Security Awareness, Bank Security Awareness, Data Privacy Act, Financial Consumer Protection, Sustainability and its Key Components were made available for all employees.

Rizal MicroBank Directors and Senior Officers attended 2023's Online Corporate Governance Training, which was conducted by RCBC. This is one of the learning opportunities for directors and executives to update and refresh their knowledge which will enable them to fulfill their roles. Directors also received briefings on relevant policies and updates on certain BSP regulation and circulars, as well as the bank's strategic initiatives and plans.

## RETIREMENT AND SUCCESSION POLICY

The elected directors shall hold office for a term of one year and until their successors shall have been duly elected and qualified. To add, Rizal MicroBank's three independent directors have been observing the term limits stated in the Bangko Sentral ng Pilipinas' Circular No. 969 dated 22 August 2017.

In addition, the Bank provides financial security to employees even after their retirement through its retirement benefit plan. The employee's retirement date shall be one day after the 60th birthday, and completion of at least ten years of credited service for the purpose of qualification for retirement benefit.

Also, our Board understands that the Bank must continually evolve and restructure its business to remain ahead of strategic, market, technology, and regulatory shifts. The Board and senior management must also respond to and anticipate future changes and challenges. In this regard, our Board is regularly refreshed in a continuing cycle. The Corporate Governance Committee work within a general board succession plan framework to ensure that: 1) appropriate governance processes are in place and ongoing, for identifying, assessing and monitoring future needs of the Board; 2) there is continuity and transfer of knowledge in the Board so that it may effectively fulfill its role and responsibilities to Rizal MicroBank as that may evolve over time, and; 3) the Board is taking a prudent and structured approach to managing succession risk. The Corporate Governance Committee assists in the annual review and assessment of the structure, size and composition of the Board and Board-level committees. The committee takes into consideration the Bank's current strategy and business, regulatory requirements on independence and diversity, as well as comparative benchmark analysis. The Committee may also review the Board's forecasted membership requirements over the next three to five years, based on factors such as directorship limits, diversity policy, and retirement policy for directors, and term limits for independent directors.

In terms of Senior Management succession, in consultation with the President, the Human Resources Department reviews the Bank's talent development process for proper management. Senior management provides annual bench analysis report and development plans based on the results of its performance appraisal process for key management positions and high potential individuals who were identified as potential successors. Aside from ensuring that there is a sufficient pool of qualified internal candidates to fill senior leadership positions, this review process identifies opportunities, performance gaps, and proactive measures in the Bank's senior management succession planning.

## REMUNERATION POLICY

To encourage sustainable value creation within the organization, RMB is committed to provide salaries or compensation consistent with job performance standards, the requirements of the law, and in a range that is competitive with the other thrift or rural banks across the country.

The Board of Directors has the authority to determine level of remuneration and/or benefits for directors, as well as the President's, sufficient to attract, retain and compensate them for their time commitments and responsibilities of their role. Each director is entitled to receive fees and per diems for his or her services as a director, as stated in RMB's by-laws, for each occasion of attendance at meetings of the Board or of Board Committee.

For Senior Management, officers and staff, the President, in coordination with the Human Resources Department, ensures that the pay appropriately reflects the Bank's financial performance and individual job performance. The Bank also ensures that it offers a competitive compensation package which is aligned with performance standards and has pay differentials for different types of work and job levels based on the board approved salary structure. On top of that, the Bank provides incentives and rewards for performing employees which contributed to the overall business objectives and targets.

In consultation with the parent bank's Human Resources Group, RMB ensures that each job is rated properly and continuously as they change over time due to reconfiguration of functions or reorganizations after a thorough job evaluation.

## POLICIES AND PROCEDURES ON RELATED PARTY TRANSACTIONS

Related Party refers to:

- a. Directors, Officers, Stockholders, and Related Interests (DOSRI) as defined under BSP regulations;
- b. Close family members of the Bank's directors, officers and stockholders;
- c. The Bank's subsidiaries, affiliates and any party that the Bank exerts direct/ indirect control over or that exerts direct/indirect control over the Bank;
- d. Corresponding persons in affiliated companies which refer to the DOS of the companies and their relatives within the second degree of consanguinity and affinity;
- e. Other members of the Yuchengco Group of Companies (YGC) that are not classified as DOSRI, subsidiary or affiliate.
- f. Entities with direct or indirect linkages to the Bank
- g. Members of the Advisory Board of the Bank; and
- h. Subsidiaries of related parties.

Policies pertaining to Related Party Transactions are as follows:

- The Bank's Code of Conduct shall include a provision mandating all employees to report any potential related party transactions.
- To ensure fairness and arm's length terms of RPTs, the Bank shall set parameters for selecting similarly situated nonrelated party accounts for benchmarking purposes, and shall put in place an effective price discovery mechanism.
- Business units handling accounts/transactions of a related party, as well as officers and employees who may be a party in a related party transaction have the responsibility to notify the Compliance Office of such transactions as soon as they become aware of it. Also, non-related parties with outstanding transactions who subsequently become related must likewise be reported to the Compliance Office.
- The Compliance Office shall conduct a preliminary review of a proposed transaction submitted by business unit to ensure compliance with BSP rules and regulations, and then forward it to the RPT Management Committee or the RPT Committee, depending on the materiality of the amount of the transaction.
- The business units of the Bank shall maintain and regularly update their inventory of related parties and related party transactions. The inventory shall reflect the names of the related parties, relationship, and present employment/ affiliation (for natural persons). The business units shall also monitor the status and aggregate exposure to each related party as well as the total amount of exposure to all related parties.

- The business units shall submit a quarterly report to the Compliance Office which contains the updated inventory and exposures to related parties. This, in turn, shall be reported by the Compliance Office to the RPT Committee.

### **Material RPTs**

Transactions with related parties involving amounts of at least: P5 Million shall be considered material RPTs.

The Board of Directors shall delegate to a RPT Management Committee the review and approval of Related Party Transactions where the amount involved is below the materiality threshold of Pesos: P5 Million, unless the transaction requires board approval (e.g. loan and/ or credit accommodations to DOSRI, subsidiaries and affiliates; real estate transactions with DOSRI; cross-selling and outsourcing), in which case, the transaction shall be submitted to the RPT Committee for its evaluation and endorsement to the Board for approval.

Related Party Transactions where the amount involved is at least P5 Million and all DOSRI transactions regardless of amount, shall be approved by the Board upon endorsement by the RPT Committee. In determining whether to approve a Related Party Transaction, the Board shall be guided by the report of the RPT Committee as well as any other relevant information be made available to it upon its request.

Related Party Transactions that were approved by the RPT Management Committee shall be subject to Board confirmation.

### **Bank's Responsibilities on Disclosure of RPTs**

- To submit quarterly reports on material related party transactions to the parent Bank's RPT Committee for consolidation with the parent Bank's own report to the BSP. Material RPTs are transactions involving amounts of at least P5 Million.
- To disclose all RPTs in the Bank's financial, operational, and annual reports as well as in the reports filed with the applicable regulatory body to the extent required by applicable rules and regulations.
- To disclose the nature of the related party relationship as well as information about the transactions and outstanding balances necessary for an understanding of the potential effect of the relationship on the financial statements.
- To adequately disclose in its Annual Report its policies and procedures for managing Related Party Transactions, including managing conflicts of interest or potential conflicts of interest, and responsibility of the RPT Committee.



## SELF-ASSESSMENT FUNCTION

### *The Internal Audit Function*

The Bank maintains an Internal Audit function which aims to add value and improve the organization's operations. Internal auditing is an independent, objective assurance and consulting activity designed to help the Bank accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance process. It ascertains the adequacy and effectiveness of the Bank's management over risks, control and process. Internal Audit shall provide reasonable assurance that internal controls of the bank are in place.

The Board of Directors through the Audit & Compliance Committee provides authority to Internal Audit to have unrestricted access to all bank records, physical properties, personnel and functions. Further, the Board allows Internal Audit to seek any other information from any Bank officer and employee and other external sources. The established authority is used solely in relevance to the performance of the engagement.

The Bank's Internal Audit Function encompasses the assessment, evaluation and contribution to the improvement of governance, risk management and control processes. Thus, the Internal Audit examines all business systems, processes, operation, function and activities within the Bank, which includes:

1. Assisting the Bank in identifying and evaluating significant risk exposures and contributing to the improvement of risk management and control systems.
2. Evaluating the risk exposures and adequacy of controls relating to and encompassing the Bank's governance, operations and information systems regarding the:
  - a. Reliability and integrity of financial and operational information
  - b. Effectiveness and efficiency of operations
  - c. Safeguarding assets
  - d. Compliance with laws, regulations and contracts
3. Ascertaining whether objectives and goals established by management conform to those of the Bank and whether they are being met.

Internal Audit reports directly and functionally to the Bank's Board of Directors through its Audit & Compliance Committee and administratively to the Bank's President. The Audit & Compliance Committee performs oversight functions over the Bank's internal and external auditors including external service providers of permitted outsourced audit activities. It ensures that the internal and external auditors act independently of each other, and that both auditors are given unrestricted access to all records, properties and personnel to enable them to perform their respective audit functions. The Audit & Compliance Committee likewise reviews the reports submitted by the internal and external auditors as well as those submitted by external service providers.

### *The Compliance Function*

The Compliance Function is an independent function that identifies, assesses, mitigates, advises on, monitors and reports on the Bank's business and compliance risks, i.e. the risk of legal or regulatory sanctions, material financial loss, or reputational loss a bank may suffer as a result of its failure to comply with all applicable laws, rules, related self-regulatory organization standards, and codes of conduct.

It has the authority, on its own initiative, to communicate with any staff member and obtain access to all operational areas as well as any records or files necessary to enable it to carry out its duties and responsibilities. It is free to investigate possible breaches of the compliance manual and report on any irregularities or breaches of laws, rules and regulations discovered without fear of retaliation or disfavor from management or other affected parties.

### *Role of the Compliance Office:*

1. To oversee the design of an appropriate compliance risk management system, promote its effective implementation, and address breaches that may arise and ensure a bankwide compliance culture such that compliance standards are understood and observed by all bank associates.
2. To monitor bank's compliance with relevant banking laws, rules and regulations including the Anti-Money Laundering Act (AMLA), as amended, to maintain a high degree of regulatory compliance, thus, avoiding penalties/sanctions from regulatory agencies.
3. To ensure the integrity and accuracy of all documentary submissions to BSP through independent validation and timely and accurate submission of all reports to regulators.
4. To conduct preliminary evaluation of suspicious transactions reports and convene the Anti-Money Laundering (AML) Management Committee of the Bank when necessary for the final determination of the grounds for reporting to the AMLC.
5. To identify and assess material breaches of the compliance program, conduct investigations of possible breaches and properly address these within the mechanisms defined by the Compliance Program, and perform risk-based compliance assurance review and other procedures to ensure the effectiveness of the compliance program in achieving its objectives.

6. To monitor corrections of all the exceptions noted during BSP examination and compliance assurance review on units to ensure no recurrence of findings.
7. To ensure timely dissemination of BSP circulars and other regulatory issuances to all concerned units.
8. To provide periodical and regular compliance reports that will:
  - a. Provide the Board of Directors through the Audit and Compliance Committee with Quarterly Activity Reports of the Compliance Office to apprise them of the Bank's state of compliance, and the impact of violation of banking laws, rules and regulations;
  - b. Provide concerned officers of branches/departments with the report on the results of monitoring and risk-based compliance review conducted by the Compliance Office.
  - c. Provide Senior Management and the Board of Directors through the Audit and Compliance Committee, with the BSP Reports of Examination (Head Office and branches) together with the replies/action taken to correct them by the concerned units.

## DIVIDEND POLICY

The Bank shall declare dividends pursuant to its By-laws and in accordance with the requirements of the BSP. In accordance with the Bank's policy, dividends may be declared annually or oftener as the Board of Directors may determine. The board shall declare dividends only from the surplus profits of the Bank after making proper provisions for the necessary reserves in accordance with banking laws, and rules and regulations of the Bangko Sentral ng Pilipinas.

No dividends were declared by the Bank during the year.

## CONSUMER PROTECTION PRACTICES

### ***Board of Directors and Senior Management***

The Board of Directors is primarily responsible for approving and overseeing the implementation of the Bank's consumer protection policies adopting a mechanism to ensure compliance therewith. It is also responsible for developing and maintaining a sound Consumer Protection Risk Management System (CPRMS) and monitoring and overseeing, thru the Risk Oversight Committee, the performance of Senior Management in managing the day to day consumer protection activities of the Bank.

Senior Management, on the other hand, is responsible for developing policies and procedures on consumer protection which are compliant with the requirements of the BSP and existing consumer protection laws, rules and regulations, ensuring their faithful implementation by all Bank officers and staff, and performing other duties and responsibilities delegated by the Board with regard to financial consumer protection.

### ***The Consumer Protection Risk Management System***

The Consumer Protection Risk Management System (CPRMS), which is part of the bank-wide Risk Management System of RMB, provides the foundation for Bank's adherence to consumer protection standards of conduct, and compliance with consumer protection laws, rules and regulations. It is proportionate to the nature and scope of operations, size, and risk profile of the Bank.

### **The Bank's CPRMS has the following components:**

1. Board and Senior Management Oversight of the CPRMS – The Board and Senior Management are responsible for reviewing on a periodic basis the effectiveness of the CPRMS, including how findings are reported and the timeliness of said reports to the Board/Risk Oversight Committee, and whether the audit mechanisms in place enable adequate oversight.
2. Compliance Program - The Compliance Office has integrated the Consumer Protection Compliance Program into the over-all compliance program of the Bank. It forms part of the monitoring, testing, and reporting activities of the Compliance Office.
3. Policies and Procedures – The bank's consumer protection policies and procedures are compliant with the requirements of existing laws, rules and regulations on consumer protection. These are embedded in the Bank's business operations, reviewed periodically and kept updated as these serve as reference by employees in their day-to-day activities.
4. Internal Audit Function - The Internal Audit Department reviews Bank's consumer protection practices, adherence to internal policies and procedures, and compliance with existing laws, rules and regulations on financial consumer protection.
5. Risk Management Function - The Risk Management Department (RMD) provides guidance to business units in accomplishing the Risk and Control Self Assessment (RCSA) for consumer protection as a mechanism to identify, measure, and monitor inherent consumer protection compliance risks, and evaluate Bank's procedures to control and mitigate these risks.
6. Training - The Human Resources Department provides personnel whose roles and responsibilities involve customer interaction, with adequate training on the proper implementation of written policies and procedures on consumer protection.

## Consumer Assistance Management System

The Bank has developed a Manual of Consumer Assistance Policies and Procedures (complaints handling manual) to provide consumers with a mechanism through which they can seek redress for their complaints/concerns regarding the Bank's products and services.

RMB has designated all of its branch operations officers as Customer Assistance Officers reporting to the Risk Management Department. The Board has direct oversight on Consumer Protection and is responsible for seeing that RMB Senior Management and staff are responsive to Consumer concerns. All branches of RMB have clearly marked feedback boxes and are provided pen and paper for writing in any customer complaints. All branches likewise have a standee with a photograph, name, number and email address of the Customer Assistance Officer of the branch and the contact details of the Chief Risk Officer. This additional channel to the Chief Risk Officer, who is in charge of Consumer Protection for the bank, is provided as an option to the bank's clientele if for any reason they do not want to submit a complaint to the branch personnel. On a monthly basis, the Risk Management Department requires submission of Consumer Complaints Reports on a NIL reporting basis, to ensure that the Complaints Handling Manual of RMB is followed to the letter. Any incidents reported will be relayed to the Risk Oversight Committee and the Board of Directors during its Quarterly meetings. Since implementation in February 2016, the system is effective in receiving customer queries and feedback, which were endorsed to the appropriate offices for their respective actions.

The following table shows the timeliness imposed by the bank on the handling of customer complaints"

| PROCESSING OF COMPLAINT  | SIMPLE*         | COMPLEX*         |
|--|-----------------|------------------|
| Acknowledgement  | Within 2 days** | Within 2 days**  |
| Processing and resolution<br>(assess, investigate and resolve) | Within 7 days** | Within 45 days** |

\* Simple complaint/request – a complaint/request where frontline staff solution or immediate explanation or action can be rendered.

\* Complex complaint/request – a complaint/ request which needs assessment, verification, or investigation with third party intervention.

\* Reckoned from date of receipt of complaint



# BOARD OF DIRECTORS



**RIZAL  
MicroBank**  
A Thrift Bank of RCBC





## EUGENE S. ACEVEDO

Chairman  
Non-Executive Director

## XAVIER Y. ZIALCITA

Non-Executive Director





## RAYMUNDO C. ROXAS

President  
Executive Director

## REDENTOR C. BANCOD

Non-Executive Director





**ZENAIDA F. TORRES**  
Non-Executive Director



**ALFREDO S. DEL ROSARIO, JR.**  
Non-Executive Director



**MA. ANGELA E. IGNACIO**  
Independent Director



**VICENTE LL. RAMIREZ, JR.**  
Independent Director





**LETICIA A. MORENO**  
Independent Director



**JOSEPH DANIEL N. LUMAIN**  
Corporate Secretary

**EUGENE S. ACEVEDO**

Chairman, Non-Executive Director

*59 years of age, Filipino**BS Physics (Magna Cum Laude), University of San Carlos; Masters in Business Management, Asian Institute of Management*

Mr. Acevedo is the President and Chief Executive Officer of the parent bank, Rizal Commercial Banking Corporation.

He has over 30 years of banking experience gained from local and multinational banks including Union Bank of the Philippines, CitySavings Bank, Philippine National Bank, and Citibank Philippines, N.A. He has a Master's degree in Business Administration from the Asian Institute of Management and completed an Advanced Management Program at the Harvard Business School. He also holds a Professional Certificate in Clean Power from the Imperial College London. He is a magna cum laude graduate from the University of San Carlos where he earned a degree in Bachelor of Science in Physics. Training/continuing education include: Corporate Governance Orientation Program (ICD); Sustainability Reporting, and Customer Due Diligence and Trade-Based Money Laundering (RCBC); Best Practices to Manage ML/TF Risks from Online Sexual Exploitation of Children Coursed through Banks and MSBs, and ML/TF Typologies (ABCOMP and BAIPHIL); BSP Supervisory Assessment Framework to replace CAMELS and ROCA Rating Systems for BSFIs (ABCOMP and BAIPHIL); Building Better Bankers: Fostering a Stronger KYE Program (ABCOMP); Leveraging on FinTech: Financial Services Under the New Economy Arrangement (ABCOMP).

**XAVIER Y. ZIALCITA**

Non-Executive Director

*46 years of age, Filipino**BS Management Engineering, Ateneo De Manila University; Masters in Business Administration, University of Chicago*

Mr. Xavier Y. Zialcita joined Rizal Microbank's Board of Directors in 2023, and concurrently leads RCBC's Strategic Initiatives with the rank of Senior Vice President. He is also a director for other subsidiaries within the RCBC Group i.e., RCBC Leasing and Finance Corporation and RCBC Realty Corporation.

Prior to taking on the said roles, Mr. Zialcita served as a Senior Vice President for RCBC Capital Corporation where he had been engaged since 2008.

He attended the seminar on corporate governance conducted by the Institute of Corporate Directors in 2023.

**RAYMUNDO C. ROXAS**

President, Executive Director

*56 years of age, Filipino**BS Psychology (Cum Laude), Lyceum of the Philippines; AB Philosophy, San Pablo Major Seminary*

Mr. Raymundo C. Roxas has been with the Bank since March 2009. He started as a Microfinance Consultant in March 2009, rose to the position of Head of Operations in December 2009, and finally was appointed as the Bank's President on March 21, 2016.

Before joining the Bank, he worked as Regional Manager of the United States Agency for International Development-Rural Bankers Association of the Philippines Microenterprise Access to Banking Services Program (USAID-RBAP MABS), Chief Commercial Officer of ACCION International- Inner Mongolia, and Microfinance Department Head & Technical Assistant to the General Manager of First Isabela Cooperative Bank, Inc.

He successfully completed the Middle Management Development Course conducted by RCBC & De La Salle University Professional School, and the Leadership Development Program conducted by RCBC & John Clements Consultancy.

He attended the seminar on corporate governance conducted by the Institute of Corporate Directors in 2016. In 2000, he participated in the Bank Management Development Course conducted by the University of Asia and the Pacific sponsored by the People's Credit and Finance Corporation. In 2007, he attended the ACCION International Management Orientation Training in Lima, Peru.

**REDENTOR C. BANCOD**

Non-Executive Director

*59 years of age, Filipino**AB Philosophy, University of the Philippines; MS Information Management (candidate), Ateneo De Manila University; Executive MBA, Kellogg School of Business and Hongkong University of Science and Technology; post graduate studies at the Asian Institute of Management.*

Mr. Redentor C. Bancod has been a director of the Bank for 14 years. He is the Chief of Staff of RCBC and concurrently heads the Information Technology Shared Services Group and Operations Group of RCBC, with the rank of Senior Executive Vice President. He is also a director of RCBC Telemoney Europe, RCBC North America, Inc., RCBC International Finance, Ltd. and RCBC Investment, Ltd.

Before joining the Bank, Mr. Bancod was Vice President and General Manager, Central Systems Asia of Sun Life Financial, Asia and Chief Technology Officer of Sun Life of Canada (Philippines), Inc. He also served as Chief Technology Officer of Equitable-PCI Bank.

In 2013, Mr. Bancod was recognized as one of the top CIOs in Asia by International Data Group (IDG). He attended the seminar on corporate governance conducted by the Institute of Corporate Directors in 2019.

**ZENaida F. TORRES**

Non-Executive Director

*68 years of age, Filipino**BSBA Accounting, University of the East, Certified Public Accountant*

Ms. Zenaida F. Torres has been a director of the Bank for 13 years. She is also a director of Niyog Property Holdings, Inc. and Rizal Equities, Inc. She works as Consultant of the House of Investments, Inc.

She was formerly the Head of Controllershship Group of Rizal Commercial Banking Corporation, and director of of Manchester Land Properties, Inc.

She attended the seminar on corporate governance conducted by the Institute of Corporate Directors in 2019. She also attended the following seminars: IFRS 9-Business Impact and Benefits of Early Adoption, Blue Ocean Strategy, and IFRS vs. Tax Laws and Regulations.

**ALFREDO S. DEL ROSARIO, JR.**

Non-Executive Director

*67 years of age, Filipino**BS Management, Ateneo De Manila University; Masters in Business Administration (Units), Ateneo Graduate School, Juris Doctor (units), Ateneo Law School*

Mr. Alfredo S. Del Rosario Jr. has been a non-executive director of the Bank for eight (8) years. He is a member of the Bank's Executive Committee and the Corporate Governance Committee. He was also the former President and CEO of Philippine Realty and Development Corporation.

Mr. Del Rosario was Chairman & President of RCBC-JPL Holding Company, Inc., Director/Vice President of Niyog Property Holdings, Inc., and Executive Vice President for Special Projects of RCBC.

Before joining the Bank, Mr. Del Rosario was Group Head of RCBC with the rank of Executive Vice President. He was also a director of Pres. Jose P. Laurel Rural Bank, Inc.

He attended the seminar on corporate governance conducted by the Institute of Corporate Directors in 2019.

**MA. ANGELA E. IGNACIO**

Independent Director

*50 years of age, Filipino**BS Applied Economics and BS Commerce Major in Management of Financial Institutions, De La Salle University; Master's degree in Applied Finance, University of Melbourne*

Ms. Ignacio also completed the Emerging Leaders Program of Harvard University - Kennedy School of Government in 2014, and is a fellow of the Institute of Corporate Directors.

To date, she holds directorships in RCBC Leasing and Finance Corporation, RCBC Rental Corporation, Esna Holdings and Esna Realty & Development Corporation, Ayala REIT Fund Managers, Inc., PH Resorts Inc., Glacier Megafridge Inc. and Sureserv Inc. She also serves as the Managing Director for Polestrom Consulting Inc. and Avisez Asia, Inc.

**VICENTE LL. RAMIREZ, JR.**

Independent Director

*77 years of age, Filipino**BA English, Ateneo de Naga University*

Mr. Ramirez is currently an Independent Director for RCBC Leasing and Finance Corporation, RCBC Rental Corporation, and Metro Combined Logistics Solutions. He was the former President and Director of Japan-PNB Equipment Rentals Corporation, former Executive Vice President and concurrent Treasurer for Japan-PNB Leasing and Finance Corporation.

**LETICIA A. MORENO**

Independent Director

*63 years of age, Filipino**BS Business Economics, University of the Philippines - Diliman; Masters of Business Administration, University of the Philippines - Diliman*

Ms. Moreno has more than 30 years of professional experience in the banking industry before she officially retired in 2020. She also worked with Development Academy of the Philippines and Economic Support Fund as a Project Officer.

Currently, apart from her directorship with Rizal Microbank, Inc., she was also appointed as an Independent Director of VistaReit, Inc. and RCBC Leasing and Finance Corporation.

**JOSEPH DANIEL N. LUMAIN**

Corporate Secretary

*30 years of age, Filipino*

Mr. Joseph Daniel N. Lumin has nine (9) years of professional experience in strategic management in both the public and private sector.

Prior to joining the bank, he founded a social enterprise that supports more than 100 indigenous weavers across the Philippines. As Chief Operating Officer and Social Enterprise Director from 2014 to 2018, he supervised his company's community development programs, and concurrently served as the Head of Finance and Retail Operations. Previous to that, he served as an Executive Assistant VI under the Strategic Management Group of the Governance Commission for GOCCs, and assisted in the regulation of government-owned financial institutions in the country.

He graduated from the Ateneo de Manila University in 2014 with a Bachelor's Degree in Legal Management, with minor degrees in Development Management and Sociology. He has also earned his Master's degree in Public Management and Master of Business Administration degree from the same university in 2016 and 2023 respectively.

# EXECUTIVE OFFICERS



**RIZAL  
MicroBank**  
A Thrift Bank of RCBC





**RAYMUNDO C. ROXAS**  
President  
Executive Director



**EMELITA B. ROCERO**  
Senior Vice President  
Head of Retail Lending Department



**LIBERTINE B. CUBIO**  
First Vice President  
Mindanao Area Lending Head

# EXECUTIVE OFFICERS





**MARIA HAZEL F. VELASCO**

Vice President  
Luzon and Visayas Area Lending Head

**JOSEPH DANIEL N. LUMAIN**

Vice President  
Head, Corporate Planning and  
Strategic Projects Department  
Concurrent Business Information  
Officer

**JEAN MELODY N. BESA**

Vice President  
Head of Internal Audit Department

# EXECUTIVE OFFICERS



**MITCHELLE P. ADOBAS**  
Assistant Vice President  
Visayas Area Lending Head



**NESTORIO D. DELA CRUZ, JR.**  
Assistant Vice President  
Head of Accounting Department



**ROWLAND V. MOSCARDON**  
Senior Manager  
Project Director - IT Department

# EXECUTIVE OFFICERS



**TERESITA D. SARMIENTO**

Manager  
Head of Branch Services and Support  
Department

**NORWEL C. DE ROXAS**

Senior Assistant Manager  
Chief Risk Officer

**AVA A. DIAMANTE**

Senior Assistant Manager  
Head of Treasury Department

# EXECUTIVE OFFICERS





**SHERRA ROSE P. ROSIL**  
Assistant Manager  
Deputy Compliance Officer



**HONEY GRACE N. DELOS REYES**  
Assistant Manager  
Human Resources Officer

# EXECUTIVE OFFICERS

**RAYMUNDO C. ROXAS**

*President,  
Executive Director  
56 years of age, Filipino*

Mr. Raymundo C. Roxas has been with the Bank since March 2009. He started as a Microfinance Consultant in March 2009, rose to the position of Head of Operations in December 2009, and finally was appointed as the Bank's President on March 21, 2016.

Before joining the Bank, he worked as Regional Manager of the United States Agency for International Development-Rural Bankers Association of the Philippines Microenterprise Access to Banking Services Program (USAID-RBAP MABS), Chief Commercial Officer of ACCION International-Inner Mongolia, and Microfinance Department Head & Technical Assistant to the General Manager of First Isabela Cooperative Bank, Inc.

He attended the seminar on corporate governance conducted by the Institute of Corporate Directors in 2016. In 2000, he participated in the Bank Management Development Course conducted by the University of Asia and the Pacific sponsored by the People's Credit and Finance Corporation. In 2007, he attended the ACCION International Management Orientation Training in Lima, Peru.

He successfully completed the Middle Management Development Course conducted by RCBC & De La Salle University Professional School, and the Leadership Development Program conducted by RCBC & John Clements Consultancy.

**EMELITA B. ROCERO**

*Senior Vice President Head,  
Head of Retail Lending Department  
53 years of age, Filipino*

Ms. Emelita B. Rocero has over 16 years of combined experience in commercial and microfinance lending. Prior to assuming her current position, she was Head of Credit Support and Administration with the rank of Vice President.

Before joining the Bank, she worked under the United States Agency for International Development-Rural Bankers Association of the Philippines Microenterprise Access to Banking Services Program (USAID-RBAP MABS) from year 2000 to 2010, her last position being as a Regional Coordinator for the Visayas. Previous to that, she worked as Consultant/Microfinance Department Head at Valiant Rural Bank, Inc.

She completed the required academic units for her Master's in Business Administration course Major in Corporate Management from the University of Southeastern Philippines, Davao City; and earned her BS degree in Commerce, Major in Accounting from the University of Mindanao, Davao City. She graduated at the top of her class in the Middle Management Development Program of De La Salle University Center for Professional Development in Business, RCBC Plaza.

**LIBERTINE B. CUBIO**

*First Vice President  
Mindanao Area Lending Head  
49 years of age, Filipino*

Ms. Libertine B. Cubio has 22 years of professional experience in the banking industry, nineteen (19) of which is with the microfinance industry. Further, she has nineteen (19) years of experience in credit underwriting, three (3) years in auditing and eighteen (18) years in handling supervisory to managerial positions. Last April 2012, she joined Rizal MicroBank, Inc. as the Area Lending Head for Mindanao. Prior to RMB, she was connected with FAIR Bank, Cebu as the Vice President for Operations.

Ms. Cubio is a graduate of Bachelor of Science in Accountancy at University of Immaculate Conception, Davao City.

**MA. HAZEL F. VELASCO**

*Vice President  
Luzon Area Lending Head  
47 years of age, Filipino*

Ms. Maria Hazel Fulgueras-Velasco has 21 years of professional experience in the banking industry, twelve (12) of which is with the microfinance, small business and agricultural lending sector. Also, she has nine years of combined experience in Audit, Compliance, Finance and Comptrollership. She started her banking career as the Audit and Compliance Head, 20 years of her banking service is in a managerial position. Last April 2012, she joined Rizal MicroBank, Inc. as the AVP for Luzon Area Operations. Prior to RMB, she was connected with President Jose P. Laurel Rural Bank, Inc. as VP Microfinance Head. Moreover, she was a public audit practitioner as Senior Auditor at Carlos J. Valdes and Associates, CPA's, and was also involved in the Academe as a Part-time Professor for Accountancy, Tax and Auditing subjects.

Ms. Fulgueras-Velasco is a graduate of Bachelor of Science in Accountancy, at Tomas Claudio Colleges; she is a licensed Certified Public Accountant by profession since 1998.

**JOSEPH DANIEL N. LUMAIN**

*Vice President  
Head, Corporate Planning and Strategic Projects Department  
Concurrent Business Information Officer  
30 years of age, Filipino*

Mr. Joseph Daniel N. Lumain has more than seven years of professional experience in strategic management in both the public and private sector.

Prior to joining the bank, he founded a social enterprise that supports more than 100 indigenous weavers across the Philippines. As Chief Operating Officer and Social Enterprise Director from 2014 to 2018, he supervised his company's community development programs. Previous to that, he served as an Executive Assistant VI under the Strategic Management Group of the Governance Commission for GOCCs, and assisted in the regulation of government-owned financial institutions in the country.



He graduated from the Ateneo de Manila University in 2014 with a Bachelor's Degree in Legal Management, with minor degrees in Development Management and Sociology. He has also earned his Master's degree in Public Management in 2016 and Business Administration in 2023 from the same university.

### **JEAN MELODY N. BESA**

*Vice President*

*Head of Internal Audit Department*

*31 years of age, Filipino*

Ms. Jean Melody P. Naranjo joined the Bank in 2014 as Internal Audit Examiner. She was appointed as Acting Head of Internal Audit in April 2016 and then as full-fledged Head of Internal Audit in October of the same year. In October 2017, she was appointed as Chief Compliance Officer in a concurrent capacity.

Prior to joining the Bank, she was a Part-Time Instructor at the Christian Colleges of Southeast Asia, and Accounting/Audit Staff at Balidio Auditing and Accounting Office. Ms. Naranjo holds a Bachelor's degree in Accountancy from the University of Mindanao and is a Certified Public Accountant.

### **MITCHELLE P. ADOBAS**

*Assistant Vice President*

*Visayas Area Lending Head*

*48 years of age, Filipino*

Mrs. Michelle P. Adobas has 19 years of professional experience in the banking industry, 18 of which is with the microfinance industry. Also, she has 15 years of experience in credit underwriting and 15 years in a managerial position. Last October 2019, she joined Rizal MicroBank, Inc. as the Head of Microfinance Department. Prior to RMB, she was connected with Malayan Bank as a Branch Manager of Davao, as well as with Enterprise Bank, Inc.

Mrs. Adobas is a graduate of Bachelor of Science in Business Administration Major in Marketing Management at Philippine School of Business Administration, Manila.

### **NESTORIO D. DELA CRUZ, JR.**

*Assistant Vice President*

*Head of Accounting Department*

*30 years of age, Filipino*

Mr. Nestorio dela Cruz Jr. joined the Bank as the Head of the Accounting Department in 2022. He has 10 years of working experience in the field of tax and accounting. Prior to working with Rizal Microbank Inc., Mr. dela Cruz was the Accounting Manager of Aldiz Incorporated, an importer and distributor of agri-chemicals in the Philippines. He successfully implemented the transition from a semi-manual to a fully-automated ERP system (SAP Business One) before leaving the said company.

He graduated with a Bachelor's Degree in Accountancy from the University of Mindanao in 2014 and passed the CPA Licensure Examination the same year.

### **ROWLAND V. MOSCARDON**

*Senior Manager*

*Project Director - IT Department*

*52 years of age, Filipino*

Mr. Rowland V. Moscardon has more than 26 years of experience in Information Technology - more than 25 years with Rizal Commercial Banking Corporation and almost 2 years with Union Bank of the Philippines.

Mr. Moscardon has been into project management since 2012, applications development since 2003, IT systems support since 1999 and Information Management Systems since 1996.

He has been managing the IT projects and supporting the IT requirements of Rizal MicroBank (RMB) since 2012. He has been managing and supporting RMB's Core Banking System (CBS), other application concerns, compliance to IT standards and information securities and various IT infrastructure needs.

Mr. Moscardon's key projects were system enhancement and API integration related to the RMB's CBS in 2023, launch of a loan application public web portal and a loan origination system (LOS) module of CBS in 2022, deployments of agency banking system; KYC repository facility and Operational Data Store (ODS) in 2020, and migration of RMB's CBS to a cloud-based platform in October 2019.

Prior to being assigned to supporting RMB, he was involved in RCBC's migration from Financial Management System (FMS) to Oracle Enterprise in 2011. Supporting and maintaining FMS as a programmer since 2003. He has also served as an IT Support Specialist since 1999 and has been deployed bankwide. He started in RCBC in 1996 as an IT Standards Analyst drafting IT policies and procedures and proposing process improvements.

He was assigned as an Industrial Engineer (IE) in the Information Technology Group of the Union Bank of the Philippines in 1994, specifically to assist in the implementation of Systematics.

### **TERESITA C. SARMIENTO**

*Manager*

*Head of Branch Services and Support Department*

*49 years of age, Filipino*

Ms. Sarmiento has 25 years of professional experience in the banking industry and joined Rizal MicroBank, Inc. last April 2012. Prior to her appointment as Head of the Branch Services and Support Department, she was the Branch Head of RMB Laurel and was able to gain 11 years of experience in a managerial position and at the same time, managing the microfinance processes and business loans of the Branch.

She is a graduate of BS Commerce Major in Management at Tanauan Institute, Batangas and Masters in Public Administration at Polytechnic University of the Philippines.

**NORWEL C. DE ROXAS**

*Senior Assistant Manager  
Chief Risk Officer  
32 years of age, Filipino*

Mr. De Roxas has joined Rizal MicroBank, Inc in 2017 as a Credit Analyst. In 2020, he was transferred to Corporate Planning and Strategic Partnerships Group as a Corporate Planning Specialist before he was appointed as the Acting Chief Risk Officer in 2021. On November 2022, he was appointed as the Chief Risk Officer of Rizal Microbank, Inc.

He is a Certified Public Accountant and a graduate of Bachelor of Science in Accountancy at University of Southern Mindanao.

**AVA A. DIAMANTE**

*Senior Assistant Manager  
Head of Treasury Department  
32 years of age, Filipino*

In view of Mr. Mariano Jose Laurel's mandatory retirement in June 2022, Rizal Microbank appointed Ms. Diamante as Acting Treasurer under a developmental assignment. On July 2023, she has been appointed as Head of Treasury Department.

She is a graduate of BS Accountancy at Divine Word College of San Jose, Occidental Mindoro in 2013. She has ten (10) years of professional experience in treasury operations. She was first employed by Rizal MicroBank, Inc. as Customer Service Assistant – Teller of RMB San Jose in 2013. In 2014, she joined Treasury Department as Treasury Assistant and was then promoted as Treasury Operations Officer in 2020.

**SHERRA ROSE P. ROSIL**

*Assistant Manager  
Deputy Compliance Officer  
32 years of age, Filipino*

In line with Ms. Florida Gracia Yu- Beltran's resignation effective 01 September 2023, Ms. Sherra Rose Rosil was appointed as the new Deputy Compliance Officer.

Ms. Rosil has more than 10 years of experience in the banking industry particularly in microfinance, more than six years of which is in regulatory compliance, almost two years in bank operations and two years in internal audit.

Prior to working with Rizal MicroBank, Inc., she was working at Davao Fibreboard Packaging Plant, Inc. as an Executive Assistant for almost a year.

Ms. Rosil is a graduate of Cor Jesu College, Digos City, Davao del Sur with the degree of Bachelor of Science in Accountancy.

**HONEY GRACE N. DELOS REYES**

*Assistant Manager  
Human Resources Officer  
31 years of age, Filipino*

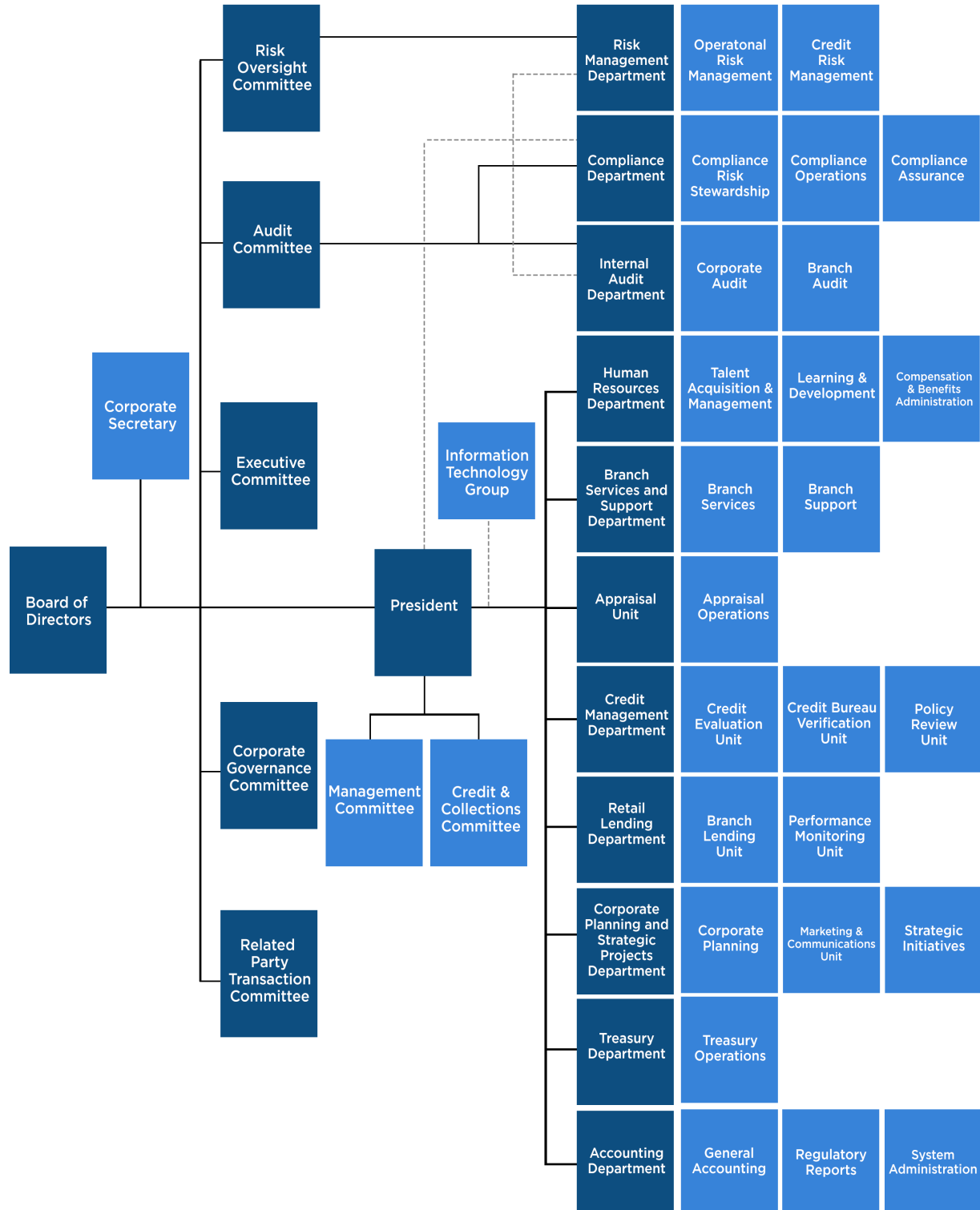
Ms. Honey Grace N. Delos Reyes has nine years of professional experience in human resources. She joined RMB in January 2016 as Talent Acquisition and Management Specialist and in 01 August 2023, she was appointed as the Acting Human Resources Officer under a developmental assignment.

Prior to Rizal Microbank, she worked with Triumph Motorcycle Corporation for two years, more than a year of which was in recruitment and employee relations.

Ms. Delos Reyes is a graduate of Bachelor of Science in Business Administration with three units in Human Resource Management and Human Behavior in Organization at Monkayo College of Arts Science and Technology.



# TABLE OF ORGANIZATION



# CORPORATE SOCIAL RESPONSIBILITY



**RIZAL  
MicroBank**  
A Thrift Bank of RCBC



# CORPORATE SOCIAL RESPONSIBILITY

## BRIGADA ESKWELA

In support of DepEd's theme "Bayanihan Para sa Matatag na Paaralan. Tara na, Mag Brigada Eskwela!", Rizal MicroBank Inc. participated in 2023's Brigada Eskwela Campaign. In July 2023, the Bank had chosen Pantalan Elementary School, located at Nasugbu, Batangas, as this year's beneficiary. This school is located in one of the most flood-prone barangay in Nasugbu, Batangas and every time the school is flooded, the parents, children and faculty would participate in clearing the flood. In addition, the school was also affected by the typhoon which entered the Philippines in 2023. The Bank earnestly hopes that the 378 students of Pantalan Elementary School could have classrooms conducive for learning.



## YGC CHRISTMAS FUND DRIVE

Living the core values of Malasakit, Rizal MicroBank, Inc. has once again participated to the YGC's Christmas Fund Drive, in partnership with Caritas Manila, to fund gift certificates and rice packs for the less fortunate families or those identified as homeless, internally displaced individuals and families facing crisis. In 2023, the families living in Manila, Kalookan, Taguig, Bicutan, Laguna, Novaliches, Malolos, Pasig, Marikina and Antipolo were the target recipients. Each family beneficiary received P1, 000.00 worth of gift certificates and some bigger families had additional packed meals.





# CAPITAL STRUCTURE & ADEQUACY



**RIZAL  
MicroBank**  
A Thrift Bank of RCBC

The capital adequacy ratio of the Bank as reported to the BSP as of December 31, 2023 and 2022 under Basel III framework are shown in the table below.

(In Millions)

|                                      | <b>2023</b>   | <b>2022</b>   |
|--------------------------------------|---------------|---------------|
| CET 1 Capital                        | 489           | 482           |
| Tier 1 Capital                       | 489           | 482           |
| Tier 2 Capital                       | 0.40          | 2             |
| <b>Total Qualifying Capital</b>      | <b>489.40</b> | <b>484</b>    |
| Credit Risk Weighted Assets          | 1,319         | 1,275         |
| Market Risk Weighted Assets          | -             | -             |
| Operational Risk Weighted Assets     | 360           | 385           |
| <b>Risk Weighted Assets</b>          | <b>1,679</b>  | <b>1,660</b>  |
| <b>Total Capital Adequacy Ratio</b>  | <b>29.12%</b> | <b>29.14%</b> |
| <b>Tier 1 Capital Adequacy Ratio</b> | <b>23.12%</b> | <b>29.05%</b> |
| <b>Common Equity Tier 1 Ratio</b>    | <b>29.12%</b> | <b>29.05%</b> |
| <b>Capital Conservation Buffer</b>   | <b>29.15%</b> | <b>23.05%</b> |

The regulatory qualifying capital of the Bank consists of Tier 1 (Common Equity Tier 1 plus Additional Tier 1) Capital less regulatory deductions. The components of qualifying capital as of December 31, 2023 and 2022 are as follows:

| <b>Tier 1 (Common Equity Tier 1 plus Additional Tier 1) Capital</b>                             | <b>2023</b> | <b>2022</b> |
|---|-------------|-------------|
| Paid up common stock  |             |             |
| Additional paid in capital  | 1,126       | 1,126       |
| Retained Earnings   | -           | -           |
| Undivided profits   | (636)       | (655)       |
| Other Comprehensive Income  | 3           | 20          |
| Net unrealized gains or losses on AFS securities  |             |             |
| Cumulative foreign currency translation   | 8           | 20          |
| Remeasurement of Net Defined Benefit Liability/(Asset)  | -           | -           |
| "Minority interest in subsidiary financial allied undertaking which are less than wholly owned" | 6           | 5           |
| <b>Common Equity Tier 1 (CET1) Capital</b>  | <b>507</b>  | <b>516</b>  |

| <b>Less: Regulatory Adjustments to CET1 Capital</b>   | <b>2023</b> | <b>2022</b> |
|---|-------------|-------------|
| Total outstanding unsecured credit accommodations, both direct and indirect, to directors, officers, stockholders and their related interests (DOSRI)"  |             |             |
| Total outstanding unsecured loans, other credit accommodations and guarantees granted to subsidiaries and affiliates"   | -           | -           |
| Deferred tax assets   | -           | -           |
| Goodwill  | -           | -           |
| Other Intangible Assets   | -           | -           |
| Defined benefit pension fund assets (liabilities)   | 2           | 2           |
| Investments in equity of unconsolidated subsidiary banks and quasi-banks, and other financial allied undertakings (excluding subsidiary securities dealers brokers and insurance companies), after deducting related goodwill, if any | 3           | 6           |

|   |    |    |
|---|----|----|
| Other equity investments in non-financial allied undertakings and non-allied undertakings | 14 | 26 |
|---|----|----|

Reciprocal investments in common stock of other banks/quasi-banks and financial allied undertakings including securities dealers/brokers and insurance companies, after deducting related goodwill, if any (for both solo and consolidated bases)

**Total Regulatory Adjustments to CET1 Capital**

**Total Common Equity Tier 1 Capital**

|            |            |
|------------|------------|
| -          | -          |
| 18         | 34         |
| <b>489</b> | <b>482</b> |

**Additional Tier 1 (AT1) Capital**

Instruments issued by the bank that are eligible as AT1 Capital

**Less: Regulatory Adjustments to AT1 Capital**

**Total Additional Tier 1 (AT1) Capital**

**Total Tier 1 (Common Equity Tier 1 plus Additional Tier 1) Capital**

|            |            |
|------------|------------|
| -          | -          |
| -          | -          |
| <b>489</b> | <b>482</b> |

**Tier 2 Capital**

Instruments issued by the bank that are eligible as Tier 2 capital

General loan loss provision

**Total Tier 2 capital**

**Less: Regulatory Adjustments to Tier 2 Capital**

**Total Tier 2 Capital**

**Total Qualifying Capital**

|              |            |
|--------------|------------|
| -            | -          |
| 0.40         | 2          |
| 0.40         | 2          |
| <b>0.40</b>  | <b>2</b>   |
| <b>489.4</b> | <b>484</b> |

\*\* Formula as per above Ratios:

a.) Total Capital Adequacy Ratio =

Total Qualifying Capital

Risk Weighted Assets

|               |               |
|---------------|---------------|
| 489.4         | 484           |
| 1,679         | 1,660         |
| <b>29.15%</b> | <b>29.14%</b> |

b.) Tier 1 Capital Adequacy Ratio =

Tier 1 Capital  
Risk Weighted Assets

|               |               |
|---------------|---------------|
| 489           | 482           |
| 1,679         | 1,660         |
| <b>29.12%</b> | <b>29.05%</b> |

c.) Common Equity Tier 1 Ratio =

CET 1 Capital  
Risk Weighted Assets

|               |               |
|---------------|---------------|
| 489           | 482           |
| 1,679         | 1,660         |
| <b>29.12%</b> | <b>29.05%</b> |

d.) Capital Conservation Buffer =

CET 1 Ratio - 6%  
Common Equity Tier 1 Ratio  
Less: CET 1 of at least 6% of Risk Weighted Assets

|               |               |
|---------------|---------------|
| 29.12%        | 29.05%        |
| 6%            | 6%            |
| <b>23.12%</b> | <b>23.05%</b> |

## Full Reconciliation of all Regulatory Capital Elements and Regulatory Adjustments/Deductions

(In Millions)

| FRP Equity Accounts  | 2023       |             |                   |              |                         | 2022       |              |                   |                |                         |
|--|------------|-------------|-------------------|--------------|-------------------------|------------|--------------|-------------------|----------------|-------------------------|
|  | FRP        | BASEL III   |                   |              |                         | FRP        | BASEL III    |                   |                |                         |
|  |            | CT1 Capital | Additional Tier 1 | Tier Capital | Total Basel III Capital |            | CET1 Capital | Additional Tier 1 | Tier 2 Capital | Total Basel III Capital |
| Paid in Capital Stock  | 1,126      | 1,126       | -                 |              | 1,126                   | 1,126      | 1,126        | -                 |                | 1,126                   |
| Common Stock   | 1,126      | 1,126       |                   |              | 1,126                   | 1,126      | 1,126        |                   |                | 1,126                   |
| Perpetual and Non-Cumulative Preferred Stock   |            |             |                   |              |                         |            |              |                   |                |                         |
| Additional Paid-in Capital   |            |             |                   |              |                         |            |              |                   |                |                         |
| Other Equity Instruments (Hybrid Tier 1)   | -          |             | -                 |              | -                       |            |              |                   | -              |                         |
| Retained Earnings  | (636)      | (636)       |                   |              | (636)                   | (655)      | (655)        |                   |                | (655)                   |
| Undivided Profits  | 3          | 3           |                   |              | 3                       | 20         | 20           |                   |                | 20                      |
| Other Comprehensive Income   | 14         | 14          |                   |              | 14                      | 25         | 25           |                   |                | 25                      |
| Minority Interest in Subsidiaries  |            |             |                   |              |                         |            |              |                   |                |                         |
| (for consolidated report only)   |            |             |                   |              |                         |            |              |                   |                |                         |
| <b>Total Equity Accounts</b>   | <b>507</b> | <b>507</b>  | <b>-</b>          |              | <b>507</b>              | <b>516</b> | <b>516</b>   | <b>-</b>          |                | <b>516</b>              |
| <b>Other Accounts Eligible as Regulatory Capital</b>   |            |             |                   |              |                         |            |              |                   |                |                         |
| Unsecured Subordinated Debt  |            |             |                   |              | -                       |            |              |                   |                | -                       |
| General Loan Loss Reserves   |            |             |                   | 0.40         | 0.40                    |            |              |                   | 2              | 2                       |
| <b>Regulatory Adjustments/Deductions to CET1 Capital</b>   |            |             |                   |              |                         |            |              |                   |                |                         |
| Total outstanding unsecured credit accommodations, both direct and guarantees granted to subsidiaries and affiliates |            | -           |                   |              | -                       |            | -            |                   |                | -                       |
| Deferred tax assets  |            | -           |                   |              | -                       |            | -            |                   |                | -                       |
| Goodwill   |            | -           |                   |              | -                       |            | -            |                   |                | -                       |
| Other Intangible Assets  |            | (2)         |                   |              | (2)                     |            | (2)          |                   |                | (2)                     |
| Defined benefit pension fund assets (liabilities)  |            | (3)         |                   |              | (3)                     |            | (6)          |                   |                | (6)                     |
| Other equity investments in non-financial allied undertakings and non-allied undertakings                            |            | (14)        |                   |              | (26)                    |            | (26)         |                   |                | (26)                    |
| Reciprocal investments in common stock of other banks/ quasi-banks and financial allied undertakings including       |            | -           |                   |              | -                       |            | -            |                   |                | -                       |
| <b>Total Regulatory Capital</b>  | <b>507</b> | <b>489</b>  | <b>-</b>          | <b>0.40</b>  | <b>489.40</b>           | <b>516</b> | <b>482</b>   | <b>-</b>          | <b>2</b>       | <b>484</b>              |

### Components of Regulatory Capital

Regulatory Capital consist of the sum of the following accounts as reported in the BSP Financial Reporting Package (FRP) which are eligible as Common Equity Tier 1 (CET1) and Additional Tier 1 (AT1) capital guided by Circular No. 781 - Basel III Implementing Guidelines on Minimum Capital Requirements

- a. Paid in Capital Stock
- b. Additional Paid-in Capital Stock
- c. Retained Earnings
- d. Undivided Profits
- e. Other Comprehensive Income
  - Net Unrealized Gains or Losses on AFS Securities
  - Cumulative foreign currency translation
  - Remeasurement of Net Defined Benefit Liability/(Asset) pertains to Reserves on remeasurements of post-employment defined benefit plan comprise of net accumulated actuarial gains or losses arising from experience adjustments and other changes in actuarial assumptions and actual return on plan assets
- f. Minority interest in subsidiary banks which are less than wholly-owned.

Tier 2 Capital consists of sum of Unsecured Subordinated Debt and General Loan Loss Reserves, limited to a maximum of 1.00% of credit risk-weighted assets.

Regulatory Adjustments to Capital consists of the sum of the following accounts :

- a. Unsecured credit accommodations
- b. Unsecured loans, other credit credit accommodations and guarantees granted to subsidiaries and affiliates
- c. Deferred Tax Assets pertains to the tax impact of deductible temporary differences such as but not limited to provisions for impairment, minimum corporate income tax and retirement benefits
- d. Goodwill.
- e. Other Intangible Assets consist of computer software.
- f. Defined benefit pension fund assets pertains to the excess of the fair value of the plan assets over the present value of the defined benefit obligation
- g. Investments in equity of unconsolidated subsidiary banks for the solo reporting represents carrying amount as reported in the FRP, net of related goodwill
- h. Other equity investments in non-financial allied undertakings and non-allied undertakings represents investments in various companies .



**Full Reconciliation of Regulatory Capital Elements back to the FRP Balance Sheet  
in the Audited Financial Statements**

(In Millions)

**December 31, 2023**

| Equity Accounts      | Audited FS | BSP FRP    | Change   | Details   | Amount   |
|----------------------|------------|------------|----------|---|----------|
| Capital Stock        | 1,126      | 1,126      | -        |   |          |
| Surplus Reserves     | 15         | 15         | -        |   |          |
| Revaluation Reserves | 16         | 13         | 3        | This pertains to the Undivided Profit that is computed as a part of Suplus Fee in the BSP FRP | 3        |
| Surplus Free         | (647)      | (647)      | (1)      |   |          |
|                      |            |            |          | <b>Total</b>  | <b>3</b> |
| <b>Total Capital</b> | <b>510</b> | <b>507</b> | <b>2</b> |   |          |

**Full Reconciliation of Regulatory Capital Elements back to the FRP Balance Sheet  
in the Audited Financial Statements**

(In Millions)

**December 31, 2022**

| Equity Accounts      | Audited FS | BSP FRP    | Change      | Details   | Amount      |
|----------------------|------------|------------|-------------|---|-------------|
| Capital Stock        | 1,126      | 1,126      | -           |   |             |
| Surplus Reserves     | 15         | 6          | 8           | To adjust RE loan reserves  | 8           |
| Revaluation Reserves | 13         | 25         | (12)        | To recognize decrease in the fair value of AFS equity investments.  | (12)        |
|                      |            |            |             | To recognize increase in the actuarial variation of retirement plan | 0.3         |
|                      |            |            |             | To recognize income tax adjustments                                 | 0.0         |
|                      |            |            |             | <b>Total Variance</b>   | <b>(12)</b> |
|                      |            |            |             | To adjust allowance for credit losses                               | (8)         |
| Surplus Free         | (651)      | (642)      | (8)         | To adjust RE loan reserves  |             |
|                      |            |            |             | <b>Total</b>  | <b>(8)</b>  |
| <b>Total Capital</b> | <b>504</b> | <b>516</b> | <b>(12)</b> |   |             |

Capital Requirements by type of exposure as of December 31, 2023 and 2022 are as follows:

| December 31, 2023   |              |             |          |                  |            |
|---|--------------|-------------|----------|------------------|------------|
| Credit Risk   |              | Market Risk |          | Operational Risk |            |
| Group   | Solo         | Group       | Solo     | Group            | Solo       |
| <i>(in Millions)</i>  |              |             |          |                  |            |
| On- Balance Sheet Assets  | 1,319        |             |          |                  |            |
| Off- Balance Sheet Assets                                       | -            |             |          |                  |            |
| Counterparty Risk-Weighted Assets in the Banking & Trading Book | -            |             |          |                  |            |
| Credit Linked Notes in the Banking Book                         |              |             |          |                  |            |
| Securitization Exposures  |              |             |          |                  |            |
| Market Risk-Weighted Assets                                     |              |             | -        |                  |            |
| Operational Risk using Basic Indicator Approach                 |              |             |          |                  | 360        |
| <b>Total</b>  | <b>1,319</b> |             | <b>-</b> |                  | <b>360</b> |
| <b>Capital Requirements</b>                                     | <b>132</b>   |             | <b>-</b> |                  | <b>36</b>  |

| December 31, 2022   |              |             |          |                  |              |
|---|--------------|-------------|----------|------------------|--------------|
| Credit Risk   |              | Market Risk |          | Operational Risk |              |
| Group   | Solo         | Group       | Solo     | Group            | Solo         |
| <i>(in Millions)</i>  |              |             |          |                  |              |
| On- Balance Sheet Assets  | 1,275        |             |          |                  |              |
| Off- Balance Sheet Assets                                       | -            |             |          |                  |              |
| Counterparty Risk-Weighted Assets in the Banking & Trading Book | -            |             |          |                  |              |
| Credit Linked Notes in the Banking Book                         |              |             |          |                  |              |
| Securitization Exposures  |              |             |          |                  |              |
| Market Risk-Weighted Assets                                     |              |             | -        |                  |              |
| Operational Risk using Basic Indicator Approach                 |              |             |          |                  | 385          |
| <b>Total</b>  | <b>1,275</b> |             | <b>-</b> |                  | <b>385</b>   |
| <b>Capital Requirements</b>                                     | <b>127</b>   |             | <b>-</b> |                  | <b>38.49</b> |

Risk weighted on-balance sheet assets covered by credit risk mitigants were based on collateralized transactions as well as guarantees by the Philippine National Government (NG) and those guarantors and exposures with the highest credit rating.

Standardized credit risk weights were used in the credit assessment of asset exposures. Third party credit assessments were based on the rating by Standard & Poor's, Moody's, Fitch and Philratings on exposures to Sovereigns, Multilateral Development Banks, Banks, Local Government Units, Government Corporation and Corporates.

**Total Credit Risk Exposures by Type, Risk Buckets and Risk Weighted Assets**

(In Millions)

| December 31, 2023  |                  |                             |                                      |             |          |            |          |            |            |                            |
|--|------------------|-----------------------------|--------------------------------------|-------------|----------|------------|----------|------------|------------|----------------------------|
| Type of Exposures  | Total Exposures* | Credit Risk Mitigants (CRM) | Total Credit Risk Exposure after CRM | 0%          | 20%      | 50%        | 75%      | 100%       | 150%       | Total Risk Weighted Assets |
| <b>On-Balance Sheet Exposures</b>  |                  |                             |                                      |             |          |            |          |            |            |                            |
| Sovereigns   | 81               | -                           | 81                                   | 81          | -        | -          | -        | -          | -          | -                          |
| Banks  | 100              | -                           | 100                                  | -           | -        | -          | -        | 100        | -          | 100                        |
| Government corporations  | -                | -                           | -                                    | -           | -        | -          | -        | -          | -          | -                          |
| Corporates   | 586              | -                           | 586                                  | -           | -        | 566        | -        | 20         | -          | 302                        |
| Housing Loans  | 2                | -                           | 2                                    | -           | -        | 2          | -        | -          | -          | 1                          |
| MSME Qualified portfolio   | -                | -                           | -                                    | -           | -        | -          | -        | -          | -          | -                          |
| Defaulted exposures  | 83               | -                           | 83                                   | -           | -        | -          | -        | -          | 83         | 125                        |
| Housing Loans  | -                | -                           | -                                    | -           | -        | -          | -        | -          | -          | -                          |
| Others   | 83               | -                           | 83                                   | -           | -        | -          | -        | -          | 83         | 125                        |
| ROPA   | 54               | -                           | 54                                   | -           | -        | -          | -        | -          | 54         | 81                         |
| All other assets, net of deductions  | 756              | -                           | 756                                  | 47          | -        | -          | -        | 710        | -          | 710                        |
| <b>Total on-balance sheet exposures</b>  | <b>1,662</b>     | <b>-</b>                    | <b>1,662</b>                         | <b>128</b>  | <b>-</b> | <b>568</b> | <b>-</b> | <b>830</b> | <b>137</b> | <b>1,319</b>               |
| <b>Off-balance sheet exposures</b>   |                  |                             |                                      |             |          |            |          |            |            |                            |
| Direct credit substitutes  | -                | -                           | -                                    | -           | -        | -          | -        | -          | -          | -                          |
| Transaction-related contingencies  | -                | -                           | -                                    | -           | -        | -          | -        | -          | -          | -                          |
| Trade-related contingencies  | -                | -                           | -                                    | -           | -        | -          | -        | -          | -          | -                          |
| Others   | 0.00             | -                           | 0.00                                 | 0.00        | -        | -          | -        | -          | -          | -                          |
| <b>Total off-balance sheet exposures</b>   | <b>0.00</b>      | <b>-</b>                    | <b>0.00</b>                          | <b>0.00</b> | <b>-</b> | <b>-</b>   | <b>-</b> | <b>-</b>   | <b>-</b>   | <b>-</b>                   |
| <b>Counterparty Risk-Weighted Assets in the Banking Book</b>   |                  |                             |                                      |             |          |            |          |            |            |                            |
| <b>Counterparty Risk-Weighted Assets in the Trading Book</b>   |                  |                             |                                      |             |          |            |          |            |            |                            |
| Derivatives - interest rate contracts  | -                | -                           | -                                    | -           | -        | -          | -        | -          | -          | -                          |
| Derivatives - exchange rate contracts  | -                | -                           | -                                    | -           | -        | -          | -        | -          | -          | -                          |
| Credit Derivatives   | -                | -                           | -                                    | -           | -        | -          | -        | -          | -          | -                          |
| <b>Total counterparty RWA in trading book</b>  | <b>-</b>         | <b>-</b>                    | <b>-</b>                             | <b>-</b>    | <b>-</b> | <b>-</b>   | <b>-</b> | <b>-</b>   | <b>-</b>   | <b>-</b>                   |
| <b>Risk-Weighted Amount of Credit Linked Notes in the Banking Book</b>   |                  |                             |                                      |             |          |            |          |            |            |                            |
| <b>Risk-Weighted Securitization Exposures</b>  |                  |                             |                                      |             |          |            |          |            |            |                            |
| <b>Total</b>   | <b>1,662</b>     | <b>-</b>                    | <b>1,662</b>                         | <b>128</b>  | <b>-</b> | <b>568</b> | <b>-</b> | <b>830</b> | <b>137</b> | <b>1,319</b>               |
| <b>Deductions from Capital</b>   |                  |                             |                                      |             |          |            |          |            |            |                            |
| General loan loss provision (in excess of the amount permitted to be included in Tier 2)                                     | -                | -                           | -                                    | -           | -        | -          | -        | -          | -          | 8                          |
| Unbooked valuation reserves and other capital adjustments affecting asset accounts based on the latest report of examination | -                | -                           | -                                    | -           | -        | -          | -        | -          | -          | -                          |
| <b>Total, net of deductions</b>  | <b>1,662</b>     | <b>-</b>                    | <b>1,662</b>                         | <b>128</b>  | <b>-</b> | <b>568</b> | <b>-</b> | <b>830</b> | <b>137</b> | <b>1,319</b>               |

\* Principal amount for on-balance sheet and credit equivalent amount for off-balance sheet, net of specific provision

**Total Credit Risk Exposures by Type, Risk Buckets and Risk Weighted Assets**

(In Millions)

| December 31, 2022  |                  |                             |                                      |             |          |            |          |            |           |                            |
|--|------------------|-----------------------------|--------------------------------------|-------------|----------|------------|----------|------------|-----------|----------------------------|
| Type of Exposures  | Total Exposures* | Credit Risk Mitigants (CRM) | Total Credit Risk Exposure after CRM | 0%          | 20%      | 50%        | 75%      | 100%       | 150%      | Total Risk Weighted Assets |
| <b>On-Balance Sheet Exposures</b>  |                  |                             |                                      |             |          |            |          |            |           |                            |
| Sovereigns   | 138              | -                           | 138                                  | 138         | -        | -          | -        | -          | -         | -                          |
| Banks  | 124              | -                           | 124                                  | -           | -        | -          | -        | 124        | -         | 124                        |
| Government corporations  | -                | -                           | -                                    | -           | -        | -          | -        | -          | -         | -                          |
| Corporates   | 555              | -                           | 555                                  | -           | -        | 536        | -        | 20         | -         | 287                        |
| Housing Loans  | 2                | -                           | 2                                    | -           | -        | 2          | -        | -          | -         | 1                          |
| MSME Qualified portfolio   | -                | -                           | -                                    | -           | -        | -          | -        | -          | -         | -                          |
| Defaulted exposures  | 38               | -                           | 38                                   | -           | -        | -          | -        | -          | 38        | 58                         |
| Housing Loans  | -                | -                           | -                                    | -           | -        | -          | -        | -          | -         | -                          |
| Others   | 38               | -                           | 38                                   | -           | -        | -          | -        | -          | 38        | 58                         |
| ROPA   | 46               | -                           | 46                                   | -           | -        | -          | -        | -          | 46        | 69                         |
| All other assets, net of deductions  | 749              | -                           | 749                                  | 13          | -        | -          | -        | 736        | -         | 736                        |
| <b>Total on-balance sheet exposures</b>  | <b>1,652</b>     | <b>-</b>                    | <b>1,652</b>                         | <b>151</b>  | <b>-</b> | <b>538</b> | <b>-</b> | <b>880</b> | <b>84</b> | <b>1,275</b>               |
| <b>Off-balance sheet exposures</b>   |                  |                             |                                      |             |          |            |          |            |           |                            |
| Direct credit substitutes  | -                | -                           | -                                    | -           | -        | -          | -        | -          | -         | -                          |
| Transaction-related contingencies  | -                | -                           | -                                    | -           | -        | -          | -        | -          | -         | -                          |
| Trade-related contingencies  | -                | -                           | -                                    | -           | -        | -          | -        | -          | -         | -                          |
| Others   | 0.00             | -                           | 0.00                                 | 0.00        | -        | -          | -        | -          | -         | -                          |
| <b>Total off-balance sheet exposures</b>   | <b>0.00</b>      | <b>-</b>                    | <b>0.00</b>                          | <b>0.00</b> | <b>-</b> | <b>-</b>   | <b>-</b> | <b>-</b>   | <b>-</b>  | <b>-</b>                   |
| <b>Counterparty Risk-Weighted Assets in the Banking Book</b>   |                  |                             |                                      |             |          |            |          |            |           |                            |
| <b>Counterparty Risk-Weighted Assets in the Trading Book</b>   |                  |                             |                                      |             |          |            |          |            |           |                            |
| Derivatives - interest rate contracts  | -                | -                           | -                                    | -           | -        | -          | -        | -          | -         | -                          |
| Derivatives - exchange rate contracts  | -                | -                           | -                                    | -           | -        | -          | -        | -          | -         | -                          |
| Credit Derivatives   | -                | -                           | -                                    | -           | -        | -          | -        | -          | -         | -                          |
| <b>Total counterparty RWA in trading book</b>  | <b>-</b>         | <b>-</b>                    | <b>-</b>                             | <b>-</b>    | <b>-</b> | <b>-</b>   | <b>-</b> | <b>-</b>   | <b>-</b>  | <b>-</b>                   |
| <b>Risk-Weighted Amount of Credit Linked Notes in the Banking Book</b>   |                  |                             |                                      |             |          |            |          |            |           |                            |
| <b>Risk-Weighted Securitization Exposures</b>  |                  |                             |                                      |             |          |            |          |            |           |                            |
| <b>Total</b>   | <b>1,652</b>     | <b>-</b>                    | <b>1,652</b>                         | <b>150</b>  | <b>-</b> | <b>538</b> | <b>-</b> | <b>880</b> | <b>84</b> | <b>1,275</b>               |
| <b>Deductions from Capital</b>   |                  |                             |                                      |             |          |            |          |            |           |                            |
| General loan loss provision (in excess of the amount permitted to be included in Tier 2)                                     |                  |                             |                                      |             |          |            |          |            |           | 7                          |
| Unbooked valuation reserves and other capital adjustments affecting asset accounts based on the latest report of examination |                  |                             |                                      |             |          |            |          |            |           |                            |
| <b>Total, net of deductions</b>  | <b>1,652</b>     | <b>-</b>                    | <b>1,652</b>                         | <b>150</b>  | <b>-</b> | <b>538</b> | <b>-</b> | <b>880</b> | <b>84</b> | <b>1,275</b>               |

\* Principal amount for on-balance sheet and credit equivalent amount for off-balance sheet, net of specific provision



# **Total Credit Risk Exposures by Asset Type, Risk Buckets and Risk Weighted Assets**

(In Millions)

| On-Balance Sheet Assets  | December 31, 2023 |                             |                                      |              |     |     |     |      |                            |
|--|-------------------|-----------------------------|--------------------------------------|--------------|-----|-----|-----|------|----------------------------|
|  | Principal Amount  | Credit Risk Mitigants (CRM) | Total Credit Risk Exposure after CRM | Risk Weights |     |     |     |      | Total Risk Weighted Assets |
|  |                   |                             |                                      | 0%           | 20% | 50% | 75% | 100% |                            |
| Cash on Hand   | 14                |                             | 14                                   | 14           |     |     |     |      | -                          |
| Checks and Other Cash Items  | -                 |                             | -                                    |              | -   |     |     |      | -                          |
| Due from Bangko Sentral ng Pilipinas (BSP)   |                   |                             |                                      |              |     |     |     |      |                            |
| Due from Other Banks   | 81                |                             | 81                                   | 81           |     |     |     |      | -                          |
| Financial Assets Designated at Fair Value through Profit or Loss   | 100               |                             | 100                                  |              | -   | -   |     | 100  | 100                        |
| Available-for-Sale (AFS) Financial Assets  | -                 | -                           | -                                    |              |     |     |     |      |                            |
| Held-to-Maturity (HTM) Financial Assets  | -                 | -                           | -                                    | -            | -   | -   |     | -    | -                          |
| Unquoted Debt Securities Classified as Loans   | -                 | -                           | -                                    |              |     |     |     | -    | -                          |
| Loans and Receivables  | 1,216             | 1,216                       | 1,216                                |              | 568 | -   | 564 | 83   | 972                        |
| Loans and Receivables Arising from Repurchase Agreements, Certificates of Assignment/ Participation with Recourse, and Securities Lending and Borrowing Transactions | 33                | -                           | 33                                   | 33           | -   | -   | -   | -    | -                          |
| Sales Contract Receivable (SCR)  | 20                |                             | 20                                   |              |     |     | 20  | -    | 20                         |
| Real and Other Properties Acquired   | 54                |                             | 54                                   |              |     |     |     | 54   | 81                         |
| Other Assets   | 146               |                             | 146                                  |              |     |     | 146 |      | 146                        |
| Total Risk-weighted On-Balance Sheet Assets  | 1,662             | 1,216                       | 1,662                                | 128          | -   | 568 | -   | 830  | 1,319                      |

61

# **Total Credit Risk Exposures by Asset Type, Risk Buckets and Risk Weighted Assets**

(In Millions)

| On-Balance Sheet Assets  | December 31, 2022 |                             |                                      |              |          |            |          |              |
|--|-------------------|-----------------------------|--------------------------------------|--------------|----------|------------|----------|--------------|
|  | Principal Amount  | Credit Risk Mitigants (CRM) | Total Credit Risk Exposure after CRM | Risk Weights |          |            |          |              |
|  |                   |                             |                                      | 0%           | 20%      | 50%        | 75%      | 100%         |
| Cash on Hand   | 13                |                             | 13                                   | 13           |          |            |          |              |
| Checks and Other Cash Items  | -                 |                             | -                                    |              | -        |            |          |              |
| Due from Bangko Sentral ng Pilipinas (BSP)   | 114               |                             | 114                                  | 114          |          |            |          |              |
| Due from Other Banks   |                   |                             |                                      |              |          |            |          |              |
| Financial Assets Designated at Fair Value through Profit or Loss   | 124               |                             | 124                                  |              | -        | -          |          | 124          |
| Available-for-Sale (AFS) Financial Assets  | -                 |                             | -                                    |              |          |            |          |              |
| Held-to-Maturity (HTM) Financial Assets  | -                 |                             | -                                    |              |          |            |          |              |
| Unquoted Debt Securities Classified as Loans   | -                 |                             | -                                    | -            | -        | -          | -        | -            |
| Loans and Receivables  | 1,175             | 1,175                       | 1,175                                |              |          | 538        | -        | 599          |
| Loans and Receivables Arising from Repurchase Agreements, Certificates of Assignment/ Participation with Recourse, and Securities Lending and Borrowing Transactions | 24                | -                           | 24                                   | 24           | -        | -          | -        | -            |
| Sales Contract Receivable (SCR)  | 20                |                             | 20                                   |              |          |            |          | 20           |
| Real and Other Properties Acquired   | 46                |                             | 46                                   |              |          |            |          | 46           |
| Other Assets   | 137               |                             | 137                                  |              |          |            |          | 137          |
| Total Risk-weighted On-Balance Sheet Assets  | <b>1,652</b>      | <b>1,175</b>                | <b>1,652</b>                         | <b>151</b>   | <b>-</b> | <b>538</b> | <b>-</b> | <b>800</b>   |
|  |                   |                             |                                      |              |          |            |          | <b>84</b>    |
|  |                   |                             |                                      |              |          |            |          | <b>1,275</b> |

**Market Risk Weighted Assets**

(In Millions)

|                             | <b>2023</b>     |                                    | <b>2022</b>     |                                    |
|-----------------------------|-----------------|------------------------------------|-----------------|------------------------------------|
| Using Standardized Approach | Notional Amount | Market Risk Weighted Assets (MRWA) | Notional Amount | Market Risk Weighted Assets (MRWA) |
| Interest Rate Exposures     | -               | -                                  | -               | -                                  |
| Equity Exposures            | -               | -                                  | -               | -                                  |
| Foreign Exposures           | -               | -                                  | -               | -                                  |
| Options                     | -               | -                                  | -               | -                                  |
| <b>Total</b>                | -               | -                                  | -               | -                                  |

**Operational Risk-Weighted Assets under Basic Indicator Approach**

(Based on 3 year Average Gross Income)

| Nature of Item            | <b>2023</b> | <b>2022</b> |
|---------------------------|-------------|-------------|
| Net interest income       | 206         | 167         |
| Other non-interest income | 45          | 46          |
| Gross Income              | 251         | 213         |
| Capital Requirements      | <b>412</b>  | <b>399</b>  |

# FINANCIAL STATEMENT



**RIZAL  
MicroBank**  
A Thrift Bank of RCBC





**FOR SEC FILING**

Financial Statements and  
Independent Auditors' Report

**Rizal Microbank, Inc. – A Thrift Bank of RCBC**

December 31, 2023 and 2022



## Report of Independent Auditors

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### Punongbayan & Araullo

20<sup>th</sup> Floor, Tower 1  
The Enterprise Center  
6766 Ayala Avenue  
1200 Makati City  
Philippines

T +63 2 8988 2288

### The Board of Directors

**Rizal Microbank, Inc. – A Thrift Bank of RCBC**

**(A Wholly Owned Subsidiary of Rizal Commercial Banking Corporation)**

Andarizal Center, Rizal Street corner Anda Street  
Barangay 3-A, Davao City

## Report on the Audit of the Financial Statements

### Opinion

We have audited the financial statements of Rizal Microbank, Inc. – A Thrift Bank of RCBC (the Bank), which comprise the statements of financial position as at December 31, 2023 and 2022, and the statements of comprehensive income, statements of changes in equity and statements of cash flows for the years then ended, and notes to the financial statements, including material accounting policy information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at December 31, 2023 and 2022, and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards (PFRS).

### Basis for Opinion

We conducted our audits in accordance with Philippine Standards on Auditing (PSA). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Bank in accordance with the Code of Ethics for Professional Accountants in the Philippines (Code of Ethics) together with the ethical requirements that are relevant to our audits of the financial statements in the Philippines, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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#### Certified Public Accountants

Punongbayan & Araullo (P&A) is the Philippine member firm of Grant Thornton International Ltd.

Offices in Cavite, Cebu, Davao  
BOA/ PRC Cert of Reg. No. 0002  
SEC Accreditation No. 0002

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- 2 -

### ***Responsibilities of Management and Those Charged with Governance for the Financial Statements***

Management is responsible for the preparation and fair presentation of the financial statements in accordance with PFRS, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Bank's financial reporting process.

### ***Auditors' Responsibilities for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with PSA will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with PSA, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

#### **Certified Public Accountants**

Punongbayan & Araullo (P&A) is the Philippine member firm of Grant Thornton International Ltd.



- 3 -

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

### Report on Other Legal and Regulatory Requirements

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. As discussed in Note 21 to the financial statements, the Bank presented the supplementary information required by the Bureau of Internal Revenue (BIR) under Revenue Regulations (RR) 15-2010 in a supplementary schedule filed separately from the basic financial statements. RR 15-2010 requires the supplementary information to be presented in the notes to financial statements. The supplementary information for the years ended December 31, 2023 and 2022 required by the Bangko Sentral ng Pilipinas (BSP) as disclosed in Note 25 to the financial statements is presented for purposes of additional analysis. Such supplementary information required by the BIR and BSP are the responsibility of management and are not a required part of the basic financial statements prepared in accordance with PFRS; it is neither a required disclosure under the Revised Securities Regulation Code Rule 68 of the Philippine Securities and Exchange Commission. The supplementary information have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

### PUNONGBAYAN & ARAULLO

**By: Maria Isabel E. Comedia**  
Partner

CPA Reg. No. 0092966  
TIN 189-477-563  
PTR No. 10076138, January 3, 2024, Makati City  
SEC Group A Accreditation  
Partner - No. 92966-SEC (until financial period 2027)  
Firm - No. 0002 (until financial period 2024)  
BIR AN 08-002511-021-2022 (until Oct. 13, 2025)  
Firm's BOA/PRC Cert. of Reg. No. 0002 (until Aug. 27, 2024)

February 23, 2024





## Supplemental Statement of Independent Auditors

### Punongbayan & Araullo

20<sup>th</sup> Floor, Tower 1  
The Enterprise Center  
6766 Ayala Avenue  
1200 Makati City  
Philippines

T +63 2 8988 2288

### The Board of Directors

**Rizal Microbank, Inc. – A Thrift Bank of RCBC**  
*(A Wholly Owned Subsidiary of Rizal Commercial Banking Corporation)*  
Andarizal Center, Rizal Street corner Anda Street  
Barangay 3-A, Davao City

We have audited the financial statements of Rizal Microbank, Inc. – A Thrift Bank of RCBC (the Bank) for the year ended December 31, 2023, on which we have rendered the attached report dated February 23, 2024.

In compliance with the Revised Securities Regulation Code Rule 68, we are stating that the Bank has only one stockholder owning 100 or more shares of the Bank's capital stock as of December 31, 2023, as disclosed in Note 17 to the financial statements.

### PUNONGBAYAN & ARAULLO

**By: Maria Isabel E. Comedia**  
Partner

CPA Reg. No. 0092966  
TIN 189-477-563  
PTR No. 10076138, January 3, 2024, Makati City  
SEC Group A Accreditation  
Partner - No. 92966-SEC (until financial period 2027)  
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BIR AN 08-002511-021-2022 (until Oct. 13, 2025)  
Firm's BOA/PRC Cert. of Reg. No. 0002 (until Aug. 27, 2024)

February 23, 2024

### Certified Public Accountants

Punongbayan & Araullo (P&A) is the Philippine member firm of Grant Thornton International Ltd.

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SEC Accreditation No. 0002

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**RIZAL MICROBANK, INC. – A THRIFT BANK OF RCBC**  
*(A Wholly Owned Subsidiary of Rizal Commercial Banking Corporation)*  
**STATEMENTS OF FINANCIAL POSITION**  
**DECEMBER 31, 2023 AND 2022**  
*(Amounts in Philippine Pesos)*

|   | <u>Notes</u> | <u>2023</u>                   | <u>2022</u>                   |
|---|--------------|-------------------------------|-------------------------------|
| <b><u>RESOURCES</u></b>                                   |              |                               |                               |
| CASH  | 8            | P 13,650,462                  | P 12,754,048                  |
| DUE FROM BANGKO SENTRAL NG PILIPINAS                      | 8            | 80,981,879                    | 113,687,087                   |
| DUE FROM OTHER BANKS                                      | 8            | 99,624,130                    | 124,000,360                   |
| LOANS ARISING FROM REVERSE<br>REPURCHASE AGREEMENTS       | 8            | 32,951,139                    | 23,946,353                    |
| LOANS AND RECEIVABLES - Net                               | 9            | 1,236,380,077                 | 1,195,774,563                 |
| BANK PREMISES, FURNITURE, FIXTURES<br>AND EQUIPMENT - Net | 10           | 134,088,207                   | 115,123,858                   |
| INVESTMENT PROPERTIES - Net                               | 11           | -                             | 57,934,857                    |
| NON-CURRENT ASSETS HELD FOR SALE                          | 12           | 53,666,457                    | -                             |
| OTHER RESOURCES - Net                                     | 13           | <u>34,526,782</u>             | <u>34,602,818</u>             |
| <b>TOTAL RESOURCES</b>                                    |              | <b><u>P 1,685,869,133</u></b> | <b><u>P 1,677,823,944</u></b> |
| <b><u>LIABILITIES AND EQUITY</u></b>                      |              |                               |                               |
| DEPOSIT LIABILITIES                                       | 14           | P 992,383,814                 | P 1,049,954,750               |
| BILLS PAYABLE   | 16           | 40,000,000                    | -                             |
| ACCRUED INTEREST AND OTHER EXPENSES                       | 15           | 20,325,331                    | 15,405,975                    |
| OTHER LIABILITIES   | 16           | <u>122,785,704</u>            | <u>108,725,343</u>            |
| <b>TOTAL LIABILITIES</b>                                  |              | <b><u>1,175,494,849</u></b>   | <b><u>1,174,086,068</u></b>   |
| <b>EQUITY</b>   |              |                               |                               |
| Capital stock   | 17           | 1,126,358,000                 | 1,126,358,000                 |
| General loan loss reserves                                | 17           | 9,269,034                     | 9,269,034                     |
| Surplus reserves  |              | 5,461,189                     | 5,461,189                     |
| Revaluation reserves                                      | 13, 20       | 16,740,663                    | 13,207,446                    |
| Deficit   |              | ( <u>647,454,602</u> )        | ( <u>650,557,793</u> )        |
| <b>TOTAL EQUITY</b>                                       |              | <b><u>510,374,284</u></b>     | <b><u>503,737,876</u></b>     |
| <b>TOTAL LIABILITIES AND EQUITY</b>                       |              | <b><u>P 1,685,869,133</u></b> | <b><u>P 1,677,823,944</u></b> |

*See Notes to Financial Statements.*

**RIZAL MICROBANK, INC. – A THRIFT BANK OF RCBC**  
**(A Wholly Owned Subsidiary of Rizal Commercial Banking Corporation)**  
**STATEMENTS OF COMPREHENSIVE INCOME**  
**FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022**  
*(Amounts in Philippine Pesos)*

|   | Notes  | 2023                      | 2022                       |
|---|--------|---------------------------|----------------------------|
| <b>INTEREST INCOME</b>  |        |                           |                            |
| Loans and receivables   | 9      | P 201,383,015             | P 176,465,018              |
| Due from Bangko Sentral ng Pilipinas and other banks                                | 8      | <u>4,795,275</u>          | <u>1,898,476</u>           |
|   |        | <u>206,178,290</u>        | <u>178,363,494</u>         |
| <b>INTEREST EXPENSE</b>   |        |                           |                            |
| Deposit liabilities   | 14     | 39,892,128                | 16,048,662                 |
| Others  | 16, 20 | <u>4,771,161</u>          | <u>4,756,605</u>           |
|   |        | <u>44,663,289</u>         | <u>20,805,267</u>          |
| <b>NET INTEREST INCOME</b>  |        | 161,515,001               | 157,558,227                |
| <b>IMPAIRMENT RECOVERY (LOSSES)</b>   | 9      | ( <u>9,913,292</u> )      | <u>15,756,114</u>          |
| <b>NET INTEREST INCOME AFTER<br/>IMPAIRMENT RECOVERY (LOSSES)</b>                   |        | 151,601,709               | 173,314,341                |
| <b>OTHER OPERATING INCOME</b>   | 18     | 64,962,591                | 55,593,904                 |
| <b>OTHER OPERATING EXPENSES</b>   | 19     | ( <u>209,845,271</u> )    | ( <u>206,491,555</u> )     |
| <b>INCOME BEFORE TAX</b>  |        | 6,719,029                 | 22,416,690                 |
| <b>TAX EXPENSE</b>  | 21     | <u>3,615,838</u>          | <u>2,825,302</u>           |
| <b>NET INCOME</b>   |        | <u>3,103,191</u>          | <u>19,591,388</u>          |
| <b>OTHER COMPREHENSIVE INCOME (LOSS)</b>  |        |                           |                            |
| Items that will not be reclassified subsequently<br>to profit or loss               |        |                           |                            |
| Fair value gains (losses) on financial assets<br>through other comprehensive income | 13     | 3,427,465                 | ( 12,434,155 )             |
| Remeasurements of retirement benefit plan   | 20     | <u>105,752</u>            | <u>5,267,707</u>           |
|   |        | <u>3,533,217</u>          | ( <u>7,166,448</u> )       |
| <b>TOTAL COMPREHENSIVE INCOME</b>   |        | <u><u>P 6,636,408</u></u> | <u><u>P 12,424,940</u></u> |

*See Notes to Financial Statements.*

**RIZAL MICROBANK, INC. – A THRIFT BANK OF ROBC**  
*(A Wholly Owned Subsidiary of Rizal Commercial Banking Corporation)*  
**STATEMENTS OF CHANGES IN EQUITY**  
**FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022**  
*(Amounts in Philippine Pesos)*

|  | Notes  | Capital<br>Stock       | Deficit                  | General Loan<br>Loss Reserves | Surplus<br>Reserves | Remeasurements<br>of Retirement<br>Benefit Plan | Revaluation Reserves           |                     |                      |
|--|--------|------------------------|--------------------------|-------------------------------|---------------------|---|--------------------------------|---------------------|----------------------|
|  |        |                        |                          |                               |                     |   | Unrealized Fair<br>Value Gains | Total               | Total<br>Equity      |
| Balance at January 1, 2023                     |        | P 1,126,358,000        | ( P 650,557,793 )        | P 9,269,034                   | P 5,461,189         | P 5,612,141                                     | P 7,595,305                    | P 13,207,446        | P 503,737,876        |
| Net income for the year                        |        | -                      | 3,103,191                | -                             | -                   | -   | -                              | -                   | 3,103,191            |
| Other comprehensive income for the year        | 13, 20 | -                      | -                        | -                             | -                   | 105,752   | 3,427,465                      | 3,533,217           | 3,533,217            |
| <b>Balance at December 31, 2023</b>            |        | <b>P 1,126,358,000</b> | <b>( P 647,454,602 )</b> | <b>P 9,269,034</b>            | <b>P 5,461,189</b>  | <b>P 5,717,893</b>                              | <b>P 11,022,770</b>            | <b>P 16,740,663</b> | <b>P 510,374,284</b> |
| Balance at January 1, 2022                     |        | P 1,126,358,000        | ( P 661,791,001 )        | P 910,854                     | P 5,461,189         | P 344,434                                       | P 20,029,460                   | P 20,373,894        | P 491,312,936        |
| General loan loss appropriation                | 17     | -                      | ( 8,358,180 )            | 8,358,180                     | -                   | -   | -                              | -                   | -                    |
| Net income for the year                        |        | -                      | 19,591,388               | -                             | -                   | -   | -                              | -                   | 19,591,388           |
| Other comprehensive income (loss) for the year | 13, 20 | -                      | -                        | -                             | -                   | 5,267,707                                       | ( 12,434,155 )                 | ( 7,166,448 )       | ( 7,166,448 )        |
| <b>Balance at December 31, 2022</b>            |        | <b>P 1,126,358,000</b> | <b>( P 650,557,793 )</b> | <b>P 9,269,034</b>            | <b>P 5,461,189</b>  | <b>P 5,612,141</b>                              | <b>P 7,595,305</b>             | <b>P 13,207,446</b> | <b>P 503,737,876</b> |

*See Notes to Financial Statements.*

**RIZAL MICROBANK, INC. – A THRIFT BANK OF RCBC**  
*(A Wholly Owned Subsidiary of Rizal Commercial Banking Corporation)*  
**STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022**  
*(Amounts in Philippine Pesos)*

|  | Notes      | 2023            | 2022            |
|--|------------|-----------------|-----------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                                |            |                 |                 |
| Profit before tax  |            | P 6,719,029     | P 22,416,690    |
| Adjustments for:   |            |                 |                 |
| Interest income  | 8, 9       | ( 206,178,290 ) | ( 178,363,494 ) |
| Interest received  |            | 205,767,522     | 180,637,908     |
| Interest expense   | 14, 19, 20 | 44,663,289      | 20,805,267      |
| Interest paid  |            | ( 41,252,300 )  | ( 18,975,690 )  |
| Depreciation and amortization  | 10, 11, 13 | 29,659,229      | 30,224,503      |
| Gain on sale of investment property  | 11, 18     | ( 24,751,579 )  | ( 4,454,279 )   |
| Impairment (reversal of impairment) losses                                 | 9          | ( 9,913,292 )   | ( 15,756,114 )  |
| Gain (loss) on loan modification   |            | ( 6,126,721 )   | 1,290,452       |
| Gain on sale of bank premises, furniture, fixtures and equipment           | 10         | ( 56,811 )      | ( 15,704,513 )  |
| Operating profit before working capital changes                            |            | ( 1,469,924 )   | 22,120,730      |
| Increase in loans and receivables  |            | ( 24,154,733 )  | ( 217,048,821 ) |
| Decrease (increase) in investment properties                               |            | 81,492,516      | ( 2,900,309 )   |
| Increase in non-current assets held for sale                               |            | ( 53,666,457 )  | -               |
| Decrease (increase) in other resources                                     |            | 2,362,557       | ( 4,492,972 )   |
| Increase (decrease) in deposit liabilities                                 |            | ( 57,570,936 )  | 220,618,457     |
| Increase in accrued interest and other expenses                            |            | 5,420,149       | 3,345,913       |
| Decrease in other liabilities  |            | ( 7,423,665 )   | ( 2,945,252 )   |
| Cash generated from (used in) operations                                   |            | ( 55,010,493 )  | 18,697,746      |
| Cash paid for taxes  |            | ( 1,795,339 )   | ( 603,397 )     |
| Net Cash From (Used in) Operating Activities                               |            | ( 56,805,832 )  | 18,094,349      |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                                |            |                 |                 |
| Acquisitions of bank premises, furniture, fixtures and equipment           | 10         | ( 15,712,623 )  | ( 26,291,907 )  |
| Proceeds from disposal of bank premises, furniture, fixtures and equipment | 10         | 4,665,658       | 60,449,013      |
| Acquisitions of computer software  | 13         | ( 1,208,872 )   | ( 678,395 )     |
| Net Cash From (Used in) Investing Activities                               |            | ( 12,255,837 )  | 33,478,711      |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>                                |            |                 |                 |
| Availments of bills payable  | 16         | 40,000,000      | -               |
| Payments of lease liabilities  | 16         | ( 18,118,569 )  | ( 15,742,522 )  |
| Net Cash From (Used in) Financing Activities                               |            | 21,881,431      | ( 15,742,522 )  |
| <b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>                |            | ( 47,180,238 )  | 35,830,538      |
| <b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>                      | 8          |                 |                 |
| Cash   |            | 12,754,048      | 12,496,095      |
| Due from Bangko Sentral ng Pilipinas                                       |            | 113,687,087     | 121,830,106     |
| Due from other banks   |            | 124,000,360     | 104,231,109     |
| Loans arising from reverse repurchase agreement                            |            | 23,946,353      | -               |
|  |            | 274,387,848     | 238,557,310     |
| <b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>                            | 8          |                 |                 |
| Cash   |            | 13,650,462      | 12,754,048      |
| Due from Bangko Sentral ng Pilipinas                                       |            | 80,981,879      | 113,687,087     |
| Due from other banks   |            | 99,624,130      | 124,000,360     |
| Loans arising from reverse repurchase agreement                            |            | 32,951,139      | 23,946,353      |
|  |            | P 227,207,610   | P 274,387,848   |

**Supplemental Information on Non-cash Investing and Financing Activity –**

The Bank recognized additional right-of-use assets and liabilities amounting to P34.94 million and P34.87 million in 2023, respectively, and P18.73 million and P18.66 million in 2022, respectively (see Notes 10 and 16).

*See Notes to Financial Statements.*



**RIZAL MICROBANK, INC. – A THRIFT BANK OF RCBC**  
*(A Wholly Owned Subsidiary of Rizal Commercial Banking Corporation)*  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2023 AND 2022**  
*(Amounts in Philippine Pesos)*

**1. CORPORATE MATTERS**

**1.1 Incorporation and Operations**

Rizal Microbank, Inc. – A Thrift Bank of RCBC (formerly known as Merchants Savings and Loan Association, Inc.) (the Bank) was incorporated in the Philippines on December 15, 1976. The Bank is licensed and authorized by the Bangko Sentral ng Pilipinas (BSP) to operate as a thrift bank and it focuses mainly in providing loans to microenterprise and small business operators as well as value chain players in the agricultural sector. As a thrift bank, the Bank, with prior Monetary Board approval, may also engage in trust, quasi-banking, and money market operations and act as collection agent/official depository for government and commercial entities. The Bank has also the authority to accept foreign currency deposits.

On March 22, 2011, the Bank secured the approval of the BSP to operate under its new trade name, Merchants Savings and Loan Association, Inc. On November 18, 2015, the Board of Directors (BOD) approved the change in corporate name of the Bank from Merchants Savings and Loan Association, Inc. to Rizal Microbank – A Thrift Bank. The BOD subsequently amended and approved the corporate name to Rizal Microbank, Inc. – A Thrift Bank of RCBC on April 27, 2018. The Securities and Exchange Commission (SEC) approved the Amended Articles of Incorporation and Amended By-Laws bearing its new corporate name on June 25, 2019.

The Bank's BOD and stockholders approved on January 27, 2012 and April 27, 2012, respectively, the amendment to the Bank's Articles of Incorporation to include the secondary purpose to sell, solicit or market insurance products and services as an insurance agent or broker especially for microinsurance products issued by life and non-life insurance companies as authorized by the Insurance Commission and in accordance with the rules and regulations of the BSP.

The Bank is a wholly owned subsidiary of Rizal Commercial Banking Corporation (RCBC or the Parent Bank), a publicly-listed company incorporated and domiciled in the Philippines. RCBC is a universal bank engaged in all aspects of banking. RCBC provides products and services related to traditional loans and deposits, trade finance, domestic and foreign fund transfers or remittance, cash management, treasury and trust and custodianship services. RCBC is 33.92% owned subsidiary of Pan Malayan Management and Investment Corporation (PMMIC or the ultimate parent company), a company incorporated and domiciled in the Philippines. PMMIC is the holding company of the flagship institutions of the Yuchengco Group of Companies.

The Bank's registered office and principal place of business is Andarizal Center, Rizal Street corner Anda Street, Barangay 3-A, Davao City. The registered office of RCBC is located at Yuchengco Tower, RCBC Plaza, 6819 Ayala Avenue cor. Sen. Gil Puyat Avenue, Makati City, while PMMIC is located at 48th Floor, Yuchengco Tower, RCBC Plaza, 6819 Ayala Avenue cor. Sen. Gil Puyat Avenue, Makati City.

- 2 -

As of December 31, 2023, the Bank has 18 branches (including its head office) in the areas of Agusan del Norte, Batangas, Bukidnon, Cebu, Davao del Norte, Davao del Sur, Metro Manila, Misamis Oriental, Occidental Mindoro, Palawan, and South Cotabato. Also, as of December 31, 2023, the Bank has two branch-lite units in Oriental Mindoro and Sultan Kudarat.

## **1.2 Approval of Financial Statements**

The financial statements of the Bank as of and for the year ended December 31, 2023 (including the comparative financial statements as of and for the year ended December 31, 2022) were authorized for issue by the Bank's BOD on February 23, 2024.

## **2. MATERIAL ACCOUNTING POLICY INFORMATION**

The material accounting policy information that has been used in the preparation of these financial statements is summarized below. These policies have been consistently applied to all the years presented, unless otherwise stated.

### **2.1 Basis of Preparation of Financial Statements**

#### *(a) Statement of Compliance with Philippine Financial Reporting Standards*

The financial statements of the Bank have been prepared in accordance with Philippine Financial Reporting Standards (PFRS). PFRS are adopted by the Financial and Sustainability Reporting Standards Council (FSRSC) from the pronouncements issued by the International Accounting Standards Board (IASB), and approved by the Philippine Board of Accountancy.

The financial statements have been prepared using the measurement bases specified by PFRS for each type of asset, liability, income, and expense. The measurement bases are more fully described in the accounting policies that follow.

#### *(b) Presentation of Financial Statements*

The financial statements are presented in accordance with Philippine Accounting Standard (PAS) 1, *Presentation of Financial Statements*. The Bank presents a statement of comprehensive income separate from the statement of profit or loss.

The Bank presents a third statement of financial position as at the beginning of the preceding period when it applies an accounting policy retrospectively or makes a retrospective restatement or reclassification of items that has a material effect on the information in the statement of financial position at the beginning of the preceding period. The related notes to the third statement of financial position are not required to be disclosed.

#### *(c) Functional and Presentation Currency*

These financial statements are presented in Philippine pesos, the Bank's functional and presentation currency, and all values represent absolute amounts, except when otherwise indicated.

Items included in the financial statements of the Bank are measured using its functional currency. Functional currency is the currency of the primary economic environment in which the Bank operates.

- 3 -

## 2.2 Adoption of Amended PFRS

### (a) Effective in 2023 that are Relevant to the Bank

The Bank adopted for the first time the following amendments to PFRS, which are mandatorily effective for annual periods beginning on or after January 1, 2023:

|  |   |  |
|--|---|--|
| PAS 1 and PFRS Practice Statement 2 (Amendments) | : | Presentation of Financial Statements – Disclosure of Accounting Policies |
| PAS 8 (Amendments)                               | : | Definition of Accounting Estimates                                       |
| PAS 12 (Amendments)                              | : | Deferred Tax Related to Assets and Liabilities from a Single Transaction |

Discussed below and in the succeeding page are the relevant information about these amendments.

- (i) PAS 1 and PFRS Practice Statement 2 (Amendments), *Presentation of Financial Statements – Disclosure of Accounting Policies*. The amendments replaced the requirement for entities to disclose their significant accounting policies with the requirement to disclose their material accounting policy information. The amendments also include guidance to help entities apply the definition of material in making decisions about accounting policy disclosures.

The amendments clarify that accounting policy information may be material because of its nature, even if the related amounts are immaterial, that accounting policy information is material if users of an entity's financial statements would need it to understand other material information in the financial statements and if an entity discloses immaterial accounting policy information, such information shall not obscure material accounting policy information. The application of these amendments is reflected in the Bank's financial statements under Notes 2 and 3.

- (ii) PAS 8 (Amendments), *Definition of Accounting Estimates*. The amendments introduced a new definition of accounting estimate which is a monetary amount in the financial statements that are subject to measurement uncertainty. It also clarifies that a change in accounting estimate that results from new information or new developments is not a correction of an error. In addition, the effects of a change in an input or a measurement technique used to develop an accounting estimate are changes in accounting estimates if they do not result from the correction of prior period errors. The application of these amendments had no significant impact on the Bank's financial statements.
- (iii) PAS 12 (Amendments), *Deferred Tax Related to Assets and Liabilities from a Single Transaction*. The amendments narrow the scope of the initial recognition exception under PAS 12 so that it no longer applies to transactions that give rise to equal taxable and deductible temporary differences. The amendments also clarify that where payments that settle a liability are deductible for tax purposes, it is a matter of judgment (having considered the applicable tax law) whether such deductions are attributable for tax purposes to the liability recognized in the financial statements (and interest expense) or to the related asset component (and interest expense). Management assessed that the application of such amendments had no significant impact on the Bank's financial statements.

- 4 -

(b) *Effective in 2023 that is not Relevant to the Bank*

Among the amendments to PFRS, which are mandatorily effective for annual periods beginning on or after January 1, 2023, the amendments to PAS 12, *International Tax Reform – Pillar Two Model Rules*, are not relevant to the Bank's financial statements.

(c) *Effective Subsequent to 2023 but not Adopted Early*

There are amendments to existing standards effective for annual periods subsequent to 2023, which are adopted by the FSRSC. Management will adopt the following relevant pronouncements in accordance with their transitional provisions; and none of these are expected to have significant impact on the Bank's financial statements:

- (i) PAS 1 (Amendments), *Presentation of Financial Statements – Classification of Liabilities as Current or Non-current* (effective from January 1, 2024)
- (ii) PAS 1 (Amendments), *Presentation of Financial Statements – Non-current Liabilities with Covenants* (effective from January 1, 2024)
- (iii) PAS 7 (Amendments), *Cash Flow Statements* and PFRS 7 (Amendments), *Financial Instruments: Disclosures – Supplier Finance Arrangements* (effective from January 1, 2024)
- (iv) PFRS 16 (Amendments), *Leases – Lease Liability in a Sale and Leaseback* (effective from January 1, 2024)
- (v) PAS 21 (Amendments), *The Effects of Changes in Foreign Exchange Rates – Lack of Exchangeability* (effective from January 1, 2025)

**2.3 Financial Instruments**(a) *Financial Assets*(i) *Classification, Measurement and Reclassification of Financial Assets*

The classification and measurement of financial assets is driven by the Bank's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. The classification and measurement of financial assets are described as follows.

*Financial Assets at Amortized Cost*

Where the business model is to hold assets to collect contractual cash flows, the Bank assesses whether the financial instruments' cash flows represent SPPI. In making this assessment, the Bank considers whether the contractual cash flows are consistent with basic lending arrangements, i.e., interest includes only consideration for the time value of money, credit risk, other basic lending risks and a profit margin. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with basic lending arrangements, the related financial asset is classified and measured at FVTPL.

- 5 -

The Bank's financial assets at amortized cost are presented in the statement of financial position as Cash, Due from BSP, Due from Other Banks, Loans Arising from Reverse Repurchase Agreement, Loans and Other Receivables and as part of Other Resources in respect of rentals and other deposits, petty cash fund and coins on hand which are included in the account.

For purposes of cash flows reporting and presentation, cash and cash equivalents include cash and other cash items, due from BSP and other banks, and securities under reverse repurchase agreement (SPURRA) with original maturities of three months or less.

#### Financial Assets at Fair Value Through Other Comprehensive Income

At initial recognition, the Bank can make an irrevocable election (on an instrument-by-instrument basis) to designate equity investments as at FVOCI; however, such designation is not permitted if the equity investment is held by the Bank for trading or as mandatorily required to be classified as FVPL. The Bank has designated its equity instrument as at FVOCI. The Bank currently has no debt instruments in its FVOCI financial asset classification.

#### Financial Assets at Fair Value Through Profit or Loss

The Bank can only reclassify financial assets if the objective of its business model for managing those financial assets changes. Accordingly, the Bank is required to reclassify financial assets: (i) from amortized cost to FVTPL, if the objective of the business model changes so that the amortized cost criteria are no longer met; and, (ii) from FVTPL to amortized cost, if the objective of the business model changes so that the amortized cost criteria start to be met and the characteristic of the instrument's contractual cash flows meet the amortized cost criteria.

A change in the objective of the Bank's business model will be effected only at the beginning of the next reporting period following the change in the business model.

#### (ii) *Effective Interest Rate Method and Interest Income*

Interest income on financial assets measured at amortized cost and all interest-bearing debt financial assets classified as at FVPL, or at FVOCI, is recognized using the effective interest rate method.

If expectations regarding the cash flows on the financial asset are revised for reasons other than credit risk, the adjustment is booked as a positive or negative adjustment to the carrying amount of the asset with an increase or reduction in interest income. The Bank calculates interest income by applying the effective interest rate to the gross carrying amount of the financial assets, except for those that are subsequently identified as credit-impaired and or are purchased or originated credit-impaired assets.

The Bank calculates interest income by applying the effective interest rate to the gross carrying amount of the financial assets, except for those that are subsequently identified as credit-impaired and or are purchased or originated credit-impaired assets.



- 6 -

For financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the net carrying amount of the financial assets (after deduction of the loss allowance). If the asset is no longer credit-impaired, the calculation of interest income reverts to gross basis. For financial assets that were credit-impaired on initial recognition, interest income is calculated by applying a credit-adjusted effective interest rate to the amortized cost of the asset. The calculation of interest income does not revert to a gross basis even if the credit risk of the asset subsequently improves.

(iii) *Impairment of Financial Assets*

The Bank's ECL model follows a three-stage impairment approach, which guide in the determination of the loss allowance to be recognized in the financial statements. The staging of financial assets and definition of default for purposes of determining ECL are further discussed in Note 4.1.

ECL is a function of the probability of default (PD), loss-given default (LGD), and exposure-at-default (EAD), with the timing of the loss also considered, and is estimated by incorporating forward-looking economic information and through the use of experienced credit judgement. These elements are discussed more fully in Note 4.1.

The Bank calculates ECL either on an individual or a collective basis. For agricultural, microfinance and regular loans which were carried out on a collective basis, the financial instruments are grouped on the basis of shared credit risk characteristics, such as but not limited to instrument type, credit risk rating, collateral type, product type, historical net charge-offs, industry type, and geographical locations of the borrowers or counterparties. The Bank calculates ECL for corporate loans, sales contract receivables, and investment securities at amortized cost on an individual basis.

The Bank applies a simplified ECL approach for its accounts receivables and other risk assets wherein the Bank uses a provision matrix that considers historical changes in the behaviour of the portfolio of credit exposures based on internally collected data to predict conditions over the span of a given observation period. These receivables include claims from various counterparties, which are not originated through the Bank's lending activities. For these instruments, the Bank measures the loss allowance at an amount equal to lifetime ECL.

The Bank recognizes an impairment loss in profit or loss for all financial instruments subjected to ECL impairment assessment with a corresponding adjustment to their carrying amount through a loss allowance account. With respect to investments in debt securities that are measured at FVOCI, the related loss allowance account is recognized in other comprehensive income and accumulated in the Revaluation Reserves account and does not reduce the carrying amount of the financial asset in the statement of financial position.

- 7 -

*(iv) Modification*

When the Bank renegotiates or otherwise modifies the contractual cash flows of the loans to customers, the Bank assesses whether or not the new terms are substantially different to the original terms. The Bank considers, among others:

- if the borrower is in financial difficulty, whether the modification merely reduces the contractual cash flows to amounts the borrower is expected to be able to pay;
- whether any substantial new terms are introduced that will affect the risk profile of the loan;
- significant extension of the loan term when the borrower is not in financial difficulty;
- significant change in the interest rate;
- change in the currency the loan is denominated in; and/or,
- insertion of collateral, other security or credit enhancements that will significantly affect the credit risk associated with the loan.

If the terms are substantially different, the Bank derecognizes the financial asset and recognizes a new asset at fair value and recalculates a “new” effective interest rate for the asset. The date of renegotiation is consequently considered to be the date of initial recognition for impairment calculation, including for the purpose of determining whether a significant increase in credit risk has occurred.

However, the Bank also assesses whether the new financial asset recognized is deemed to be credit-impaired at initial recognition, especially in circumstances where the renegotiation was driven by the debtor being unable to make the originally agreed payments. Differences in the carrying amount are recognized in profit or loss as either gain or loss on derecognition of financial assets.

As to the impact on ECL measurement, the expected fair value of the “new” financial asset is treated as the final cash flow from the existing financial asset at the date of derecognition. Such an amount is included in the calculation of cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

If the terms are not substantially different, the renegotiation or modification does not result in derecognition, and the Bank recalculates the gross carrying amount based on the revised cash flows of the financial asset and recognizes a modification gain or loss in profit or loss.

*(b) Financial Liabilities*

Financial liabilities, which include deposit liabilities, accrued interest and other expenses, and other liabilities (except for tax-related payables and post-employment defined benefit obligation).

- 8 -

## ***2.4 Bank Premises, Furniture, Fixtures and Equipment***

Bank premises, furniture, fixtures and equipment, except land, are carried at cost less accumulated depreciation and amortization and any impairment in value. Land held for use in operation or administration is stated at cost less any impairment losses.

Depreciation is computed on a straight-line basis over the estimated useful lives of the assets as follows:

|  |                |
|--|----------------|
| Buildings                                | 10 to 25 years |
| Furniture, fixtures and office equipment | 3 to 10 years  |
| Transportation equipment                 | 5 years        |

Leasehold improvements are amortized over the estimated useful lives of the improvements of ten years or the terms of the related leases, whichever is shorter.

Construction in progress represents properties under construction and is stated at cost. This includes costs of construction and other direct costs. The account is not depreciated until such time that the assets are completed and available for use.

## ***2.5 Investment Properties***

Investment properties pertain to parcels of land and building acquired by the Bank, in settlement of loans from defaulting borrowers through foreclosure or dation in payment, which are neither held by the Bank for sale in the next 12 months nor used in the rendering of services or for administrative purposes. This also includes properties held for rental.

Investment properties are stated at cost, less accumulated depreciation and any accumulated impairment losses (see Note 2.11).

Land is not subject to depreciation while building is depreciated over the remaining useful life at the date of foreclosure or over 10 years, whichever is shorter.

## ***2.6 Non-current Assets Classified as Held for Sale***

Non-current assets held for sale are measured at the lower of their carrying amounts, immediately prior to their classification as held for sale, and their fair value less costs to sell.

## ***2.7 Intangible Assets***

Intangible assets include computer software used in operations which are accounted for under the cost model and reported under Other Resources account in the statements of financial position. The cost of the asset is the amount of cash or cash equivalents paid or the fair value of the other considerations given to acquire an asset at the time of its acquisition. Capitalized costs are amortized on a straight-line basis over the estimated useful lives (ranging from two to five years) as the lives of these intangible assets are considered finite. In addition, intangible assets are subject to impairment testing as described in Note 2.11.

Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and install the specific software.

- 9 -

## 2.8 Other Income and Expense Recognition

The Bank assesses its revenue arrangement against specific criteria in order to determine if it is acting as a principal or agent. The Bank concluded that it is acting as a principal in all of its revenue arrangements.

For revenues arising from various services which are to be accounted for under PFRS 15, *Revenue from Contracts from Customers*, it provides information about the nature and timing of satisfaction of performance obligations in contracts with customers, including significant payment terms, and the related revenue recognition policies such as *Service charges, fees and Commissions* – these income arising from loans, deposits, and other banking transactions are recognized as income based on agreed terms and conditions with customers, which are generally when the services have been performed.

For other income outside the scope of PFRS 15, the following provides information about the nature and the related revenue recognition policies:

- a. *Trading and Securities Gains (Losses)* – These are recognized when the ownership of the securities is transferred to the buyer and is computed as the difference between the selling price and the carrying amount of the securities disposed of. These also include trading gains and losses as a result of the mark-to-market valuation of investment securities classified as FVPL.
- b. *Gain or loss from assets sold or exchanged* – Income or loss from assets sold or exchanged is recognized when the title to the properties is transferred to the buyer or when the collectability of the entire sales price is reasonably assured. This is included in profit or loss as part of Other Operating Income or Other Operating Expenses in the statements of profit or loss.
- c. *Recovery on charged-off assets* – Income arising from collections on accounts or recoveries from impairment of items previously written off are recognized in the year of recovery. This is included in profit or loss as part of Other Operating Income in the statements of profit or loss.

## 2.9 Leases

### (a) Bank as Lessee

Subsequent to initial measurement, the liability will be reduced for payments made and increased for interest. Bank depreciates the right-of-use asset on a straight line basis from the lease commencement date to the earlier of the end of the useful life or the end of the lease term which is from 2 to 10 years.

The Bank has elected to account for any short-term leases (less than 12 months) using the practical expedients. Instead of recognizing a right-of-use asset and lease liability, the lease payments in relation to these are recognized as an expense in profit or loss on a straight-line basis over the lease term.

The corresponding right-of-use assets and lease liabilities are presented as part of Bank Premises, Furniture, Fixtures and Equipment, and Other Liabilities, respectively, in the statement of financial position.

- 10 -

(b) *Bank as Lessor*

As a lessor, the Bank classifies its leases as either finance or operating leases.

Leases which transfer to the lessee all risks and benefits incidental to ownership of the leased item are classified as finance leases and are presented at an amount equal to the Bank's net investment in the lease. Finance income is recognized based on the pattern reflecting a constant periodic rate of return on the Bank's net investment outstanding in respect of the finance lease and is included as part of Interest Income on loans and receivables.

Leases which do not transfer to the lessee substantially all the risks and benefits of ownership of the asset are classified as operating leases. Lease income from operating leases is recognized in profit or loss on a straight-line basis over the lease term.

### **2.10 Employee Benefits**

The Bank provides retirement benefits to employees through a defined benefit plan and defined contribution plan, as well as other benefits.

The Bank's defined benefit plan covers all regular full-time employees. The pension plan is tax-qualified, non-contributory and administered by a trustee.

The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method.

## **3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES**

The preparation of the Bank's financial statements in accordance with PFRS requires management to make judgments and estimates that affect the amounts reported in the financial statements and related notes. Judgments and estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results may ultimately vary from these estimates.

### **3.1 Critical Management Judgments in Applying Accounting Policies**

In the process of applying the Bank's accounting policies, management has made the following judgments, apart from those involving estimation, which have the most significant effect on the amounts recognized in the financial statements:

(a) *Application of ECL to Financial Assets at Amortized Cost and Financial Assets at FVOCI*

The Bank uses the general approach to calculate ECL for all debt instruments carried at amortized cost and FVOCI, together with loan commitments and financial guarantee contracts. The allowance for impairment is based on the ECLs associated with the probability of default of a financial instrument in the next 12 months, unless there has been a significant increase in credit risk since origination of the financial instrument, in such case, a lifetime ECL for the instrument is recognized.

## - 11 -

The Bank has established a policy to perform an assessment, at the end of each reporting period, whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument.

(b) *Evaluation of Business Model Applied and Testing the Cash Flow Characteristics of Financial Assets in Managing Financial Instruments*

The Bank manages its financial assets based on a business model that maintains adequate level of financial assets to match its expected cash outflows, largely in relation to its core deposit funding arising from customers' withdrawals and continuing loan disbursements to borrowers, and to manage its working capital.

The Bank's business models reflect how it manages its portfolio of financial instruments, mainly loans and receivable portfolio. The Bank's business models need not be assessed at entity level or as a whole but shall be applied at the level of a portfolio of financial instruments (i.e., group of financial instruments that are managed together by the Bank) and not on an instrument-by-instrument basis (i.e., not based on intention or specific characteristics of individual financial instrument).

In determining the classification of a financial instrument, the Bank evaluates in which business model a financial instrument or a portfolio of financial instruments belongs to, taking into consideration the objectives of each business model established by the Bank (e.g., held-for-trading, generating accrual income, direct matching to a specific liability) as those relate to the Bank's investment and lending strategies.

Furthermore, the Bank assesses whether the contractual terms of the financial assets give rise on specified dates to cash flows that are SPPI on the principal amount outstanding, with interest representing time value of money and credit risk associated with the principal amount outstanding.

The assessment as to whether the cash flows meet the test is made in the currency in which the financial asset is denominated. Any other contractual term that changes the timing or amount of cash flows (unless it is a variable interest rate that represents time value of money and credit risk) does not meet the amortized cost criteria. In cases where the relationship between the passage of time and the interest rate of the financial instrument may be imperfect, known as modified time value of money, the Bank assesses the modified time value of money feature to determine whether the financial instrument still meets the SPPI criterion.

The objective of the assessment is to determine how different the undiscounted contractual cash flows could be from the undiscounted cash flows that would arise if the time value of money element was not modified (the benchmark cash flows). If the resulting difference is significant, the SPPI criterion is not met. In view of this, the Bank considers the effect of the modified time value of money element in each reporting period and cumulatively over the life of the financial instrument.



- 12 -

If more than an infrequent sale is made out of a portfolio of financial assets carried at amortized cost, an entity should assess whether and how such sales are consistent with the objective of collecting contractual cash flows. In making this judgment, the Bank considers certain circumstances documented in its business model manual to assess that an increase in the frequency or value of sales of financial instruments in a particular period is not necessarily inconsistent with an HTC business model if the Bank can explain the reasons for those sales and why those sales do not reflect a change in Bank's objective for the business model.

(c) *Distinction Between Investment Properties and Owner-occupied Properties*

The Bank determines whether a property qualifies as investment property. In making its judgment, the Bank considers whether the property generates cash flows largely independent of the other assets held by the Bank. Owner-occupied properties generate cash flows that are attributable not only to property but also to other assets used in the operations of the Bank.

Some properties comprise a portion that is held to earn rental or for capital appreciation and another portion that is held for use for administrative purposes. If these portions can be sold separately (or leased out separately under finance lease) then these portions can be accounted for separately. If the portions cannot be sold separately, the property is accounted for as investment property only if an insignificant portion is held for use in operations or for administrative purposes. Judgment is applied in determining whether ancillary services are so significant that a property does not qualify as investment property. As of the end of the reporting period, the Bank has no property comprising a portion that is held for rental or for capital appreciation and with other portions held for use in operation or for administrative purposes.

(d) *Determination of the Classification of Asset under Assets Held-for-Sale*

The Bank classifies an asset as held-for-sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. In determining whether reclassification is in order, the asset must be available for immediate sale in its present condition subject to usual terms and the same must be highly probable, evidenced by a commitment to a plan to sell the asset, and an active program to locate a buyer and complete the plan must have been initiated. Further, the asset must be actively marketed for sale at a price that is reasonable in relation to its current fair value. In addition, the sale should be expected to qualify for recognition as a completed sale within one year from the date of classification, except if a delay will be caused by events or circumstances beyond the Bank's control and there is sufficient evidence that the Bank remains committed to its plan to sell the asset.

(e) *Classification and Determination of Fair Value of Acquired Properties*

The Bank classifies its acquired properties as Bank Premises, Furniture, Fixtures and Equipment if used in operations, and as Investment Properties if held for rental or for currently undetermined future use and is regarded as held for capital appreciation, or as financial asset. At initial recognition, the Bank determines the fair value of acquired properties through internal and external appraisal depending on the Bank's threshold policy. The appraised value is determined based on the current economic and market conditions, as well as the physical condition of the property.

The Bank's methodology in determining the fair value of acquired properties are further discussed in Note 7.4.

- 13 -

*(f) Determination of Lease Term of Contracts with Renewal and Termination Options*

In determining the lease term, management considers all relevant factors and circumstances that create an economic incentive to exercise a renewal option or not exercise a termination option. Renewal options and/or periods after termination options are only included in the lease term if the lease is reasonably certain to be extended or not terminated and the renewal of the contract is not subject to mutual agreement of both parties.

The factors that are normally the most relevant are (a) if there are significant penalties should the Bank pre-terminate the contract, and (b) if any leasehold improvements are expected to have a significant remaining value, the Bank is reasonably certain to extend and not to terminate the lease contract. Otherwise, the Bank considers other factors including historical lease durations and the costs and business disruption required to replace the leased asset.

The Bank did not include renewal options as part of the lease term of as the terms are renewable upon mutual agreement.

The lease term is reassessed if an option is actually exercised or not exercised or the Bank becomes obliged to exercise or not exercise it. The assessment of reasonable certainty is only revised if a significant event or a significant change in circumstances occurs, which affects this assessment, and that is within the control of the Bank.

*(g) Recognition of Provisions and Contingencies*

Judgment is exercised by management to distinguish between provisions and contingencies. Policies on recognition of provisions and contingencies are presented in Note 23.

In dealing with the Bank's various legal proceedings, its estimate of the probable costs that may arise from claims and contingencies has been developed in consultation and coordination with the Bank's internal and outside counsels acting in defense for the Bank's legal cases and are based upon the analysis of probable results.

Although the Bank does not believe that its dealing on these proceedings will have material adverse effect on the Bank's financial position, it is possible that future results of operations could be materially affected by changes in the estimates or in the effectiveness of the strategies conducted relating to those proceedings.

**3.2 Key Sources of Estimation Uncertainty**

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next reporting period:

## - 14 -

*(a) Estimation of Allowance for ECL on Loans and Receivables*

The Bank aligned its Expected Credit Loss (ECL) Methodology with the parent bank's in 2022 ECL model. This was approved by the Board of Directors last October 27, 2022.

This methodology however still requires external validation to attest the approach used in computing ECL components such as Probability of Default (PD) and Loss Given Default (LGD) and Macroeconomic Overlay.

As updated on December 2023, the model validation of other RCBC subsidiaries, including the Bank, will spill over to Q1 of 2024, hence, the external validation team suggested to retain the existing model in computing the required allowance for credit losses as of December 2023.

This framework measures credit impairment of loan receivables in accordance with the provisions of PFRS 9 which considers past events, current conditions and forecasts of future economic conditions.

The ECL model integrates results of granular assessment of loan accounts which takes into consideration both the qualitative and quantitative factors in determining the significant increase in credit risk. Further, this assessment is classified based on the five colors depending on the severity of credit risk of the accounts.

Under this ECL framework, accounts are being assessed and classified using color codes which patterned to the COVID-19 Assistance and Recovery Enhancement (CARE) colors of the parent bank however, during 2023 they reverted back the use of S&P Rating which is their internal credit risk rating system. However, Bank opted to retain the color coding as it visually represents the level of credit risk per portfolio buckets. Color coding of accounts has been adopted only in 2021 which limits the required historical information to 2 years. Although PFRS 9 has no specific guidance nor explicit as to number of years of data requirement when computing ECL, careful assessment was made by the Bank in terms of the use of two-year historical data primarily for the consideration of the following: average lending period over which the Bank is exposed to credit risk, data quality, changes in economic conditions, and risk assessments. On the other hand, when measuring allowance for ECL for loans and receivables, management applies judgment in defining the criteria in assessing whether a financial asset has experienced SICR since initial recognition, and in the estimation of the contractual cash flows due from borrower and those that the Bank would expect to receive, taking into account the cash flows from the realization of collateral and integral credit enhancements.

The Bank's ECL calculations are outputs of complex models with a number of underlying assumptions about future economic conditions and credit behaviour of counterparties (e.g., the likelihood of counterparties defaulting and the resulting losses).

Significant factors affecting the estimates on the ECL model include:

- default history of group of accounts which determines the PD to be assigned to a specific portfolio of loans and receivables;
- criteria for assessing if there has been an SICR and when a financial asset will be transferred between the three stages;

- 15 -

- the Bank's definition of default for different segments of credit exposures that considers the regulatory requirements;
- establishing groups of similar financial assets (i.e., segmentation) for the purposes of measuring ECL on a collective basis; and,
- establishment of LGD parameters based on historical recovery rates of claims against defaulted counterparties.

The explanation of inputs, assumptions and estimation techniques used in measuring ECL and the analysis of the allowance for ECL on loans and receivables is further discussed in Note 4.1.

(b) *Fair Value Measurement for Financial Assets at FVOCI*

The Bank carries financial asset at fair value which requires judgment and use of accounting estimates. In cases when active market quotes are not available, fair value is determined by reference to the current market value of another financial instrument which is substantially the same or is calculated based on the expected cash flows of the underlying net base of the instrument or other more appropriated valuation techniques (see Note 7).

The amount of changes in fair value would differ if the Bank had utilized different valuation methods and assumptions. Any change in fair value of the financial asset would affect other comprehensive income.

The carrying values of the Bank's financial asset at FVOCI and the amount of fair value changes recognized are disclosed in Notes 7.2 and 13.1.

(c) *Determination of Appropriate Discount Rate in Measuring Lease Liabilities*

The Bank measures its lease liabilities at present value of the lease payments that are not paid at the commencement date of the lease contract. The lease payments were discounted using a reasonable rate deemed by management equal to the Bank's incremental borrowing rate.

In determining a reasonable discount rate, management considers the term of the leases, the underlying asset and the economic environment. Actual results, however, may vary due to changes in estimates brought about by changes in such factors.

(d) *Estimating Useful Lives of Bank Premises, Furniture, Fixtures and Equipment, Investment Properties, and Intangible Asset*

The Bank estimates the useful lives of bank premises, furniture, fixtures and equipment (except for land), investment properties (except for land), and intangible asset based on the period over which the assets are expected to be available for use. The estimated useful lives of these assets are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets.

The carrying amounts of bank premises, furniture, fixtures and equipment, investment properties, and intangible asset are analyzed in Notes 10, 11 and 13.2, respectively. Based on management's assessment as of December 31, 2023 and 2022, there is no change in the estimated useful lives of these assets in both years. Actual results, however, may vary due to changes in estimates brought about by changes in factors mentioned above.

- 16 -

(e) *Determining Realizable Amount of Deferred Tax Assets*

The Bank reviews its deferred tax assets at the end of each reporting period and reduces the carrying amount to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. As of December 31, 2023 and 2022, deferred tax assets were not recognized in the Bank's financial statements since management believes that those deferred tax assets will not be realized in the future (see Note 21).

(f) *Estimation of Impairment Losses of Non-financial Assets*

The Bank's premises, furniture, fixtures and equipment, intangible assets (recognized under Other Resources account), investment properties, non-current assets classified as held for sale, and other non-financial assets are subject to impairment testing.

Except for intangible assets with indefinite useful lives, PFRS requires that an impairment review be performed when certain impairment indications are present.

The Bank assesses impairment on these non-financial assets and considers the following important indicators:

- significant changes in asset usage;
- significant decline in assets' market value;
- obsolescence or physical damage of an asset;
- significant underperformance relative to expected historical or projected future operating results;
- significant changes in the manner of usage of the acquired assets or the strategy for the Bank's overall business; and,
- significant negative industry or economic trends.

If such indications are present and where the carrying amount of the asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

(g) *Determination of Fair Value of Investment Properties*

The Bank's investment properties are composed of parcels of land and building which are held for capital appreciation or held-for-lease, and are measured using cost model. The estimated fair value of investment properties disclosed in Notes 7.4 and 11 is determined on the basis of the appraisals conducted internally by management or where necessary (i.e., as required under the existing regulation of the BSP), by professional appraiser applying the relevant valuation methodologies as discussed therein.

For investment properties with appraisal conducted prior to the end of the current reporting period, management determines whether there are significant circumstances during the intervening period that may require adjustments or changes in the disclosure of fair value of those properties.

A significant change in key inputs and sources of information used in the determination of the fair value disclosed for those assets may result in adjustment in the carrying amount of the assets reported in the financial statements if their fair value will indicate evidence of impairment.

- 17 -

During the last quarter of 2023, all investment properties were reclassified to non-current assets held for sale as part of the commitment of the Bank to dispose of the properties to comply with the constitutional requirements on land ownership of the Bank (see Note 12).

(h) *Valuation of Defined Benefit Retirement Obligation*

The determination of the Bank's obligation and cost of retirement benefit is dependent on the selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions include, among others, discount rates, salary rate increase and employee turnover rate. A significant change in any of these actuarial assumptions may generally affect the recognized expense, other comprehensive income or loss and the carrying amount of the retirement obligation in the next reporting period.

The amounts of post-employment benefit obligation and related income or expense, and an analysis of the movements in the estimated present value of post-employment benefit obligation, as well as the significant assumptions used in estimating such obligation, are presented in Note 20.2

(i) *Determination of Recoverable Amount of Non-Current Assets Held for Sale*

In determining the recoverable amount of assets the Bank's non-current assets held-for-sale, the estimated fair value less cost to sell are determined by an independent appraiser or internal appraiser based on current appraised values of the properties or similar properties in the same location and condition.

The amount of assets classified as held-for sale by the Bank, its impairment and recovery are presented in Notes 12.

#### 4. RISK MANAGEMENT OBJECTIVES AND POLICIES

The Bank is exposed to a variety of financial risks in relation to holding financial instruments. The Bank's risk management process is coordinated with the Parent Bank, in close cooperation with the BOD, and focuses on actively securing the Bank's short to medium-term cash flows by minimizing the exposure to financial markets. Long-term financial investments are managed to generate lasting returns.

The Bank does not actively engage in the trading of financial assets for speculative purposes nor does it write options. The most significant financial risks to which the Bank is exposed to are credit risk, liquidity risk and market risk as described below and in the succeeding pages.

##### 4.1 *Credit Risk Management Practices*

Credit risk is the risk that the counterparty in a transaction may default, and arises from lending and other activities undertaken by the Bank.

The Bank manages credit risk through a system of policies and authorities that govern the processes and practices of all credit-originating and borrowing relationship management units.



- 18 -

The Risk Oversight Committee is responsible for the development and oversight of the Bank's risk management program. It defines the risk appetite and review the risk profile of the Bank to ensure that the risk is not higher than the risk appetite determined by the BOD. The Credit Risk Management Unit (CRMU), on the other hand, is responsible for: (a) the development of credit policies relating to account management; and, (b) the credit risk evaluation of group of borrowers in different segments of the Bank's loan portfolio. The CRMU also conducts a regular credit risk evaluation and monitoring of individual borrowers that involve specific asset quality review depending on certain materiality threshold that will reasonably capture the credit risk exposures of the Bank to a certain borrower.

At the loan origination stage of the lending process, exposure to credit risk for individual borrower is managed via adherence to a set of policies, the most notable features of which, in this context are: (a) credit approving authority that is not exercised by a single individual but rather, through a hierarchy of limits that is effectively exercised collectively; (b) branch managers have limited approval authority only within a certain credit exposure; and, (c) borrower credit analysis is performed at origination and at least annually thereafter or co-terminus with the renewal of the credit line.

Integral to the Bank's management of credit risk is ensuring a monitored level of exposures arising from an uneven distribution of counterparties in credit or in any other business relationships, or from a concentration in business sectors or geographic regions, which is capable of generating losses large enough to jeopardize an institution's solvency. The Bank monitors concentrations of credit risk by sector.

An analysis of concentrations of credit risk of the loan portfolio at the end of the reporting period is shown in Note 25(c).

#### ***4.1.1 Credit Risk Assessment and Measurement***

Loans, regardless if the accounts have been fully paid, extended or renewed in subsequent period, are subjected to evaluation for possible losses. The Bank's estimation of credit exposure for risk management purposes is complex and requires the use of models, as the exposure varies with changes in market conditions affecting the credit behaviour of the Bank's borrowers, expected cash flows, and the passage of time. The assessment of credit risk of a portfolio of assets requires further estimations as to the PDs occurring, of the associated loss ratios, and of default correlations between counterparties; accordingly, such credit risk is measured using PD, LGD, and EAD, for purposes of measuring ECL.

Unlike previous years where credit risk assessment is performed based on per product segment of loan portfolio: regular and microfinance loans, the revised ECL methodology performs credit risk assessment on a granular basis for all credit accommodations. The process requires the use of Color Coding parameters to ensure all pertinent information are captured. This information includes the assessment of the following:

- impact on business operations (pandemic, calamities and etc)
- shift in business activities
- business operations (full or downsized)
- sales and purchase level
- customer relationship
- level of supply and manpower
- status of payables and receivables
- business profitability

- 19 -

- source of payment
- business profitability
- loan servicing
- loan relief measurement

With the implementation of the revised ECL model, the Bank also maintains the individual assessment of accounts for other information source of loan impairment. In assessing accounts subject to individual assessment, the Bank has established a materiality threshold of P2.0 million for all exposures. Such threshold shall be regularly reviewed at the end of reporting period to ensure that it appropriately captures what the Bank considers as material items of loan for individual assessment. The provision for ECL shall reflect consideration of the facts and circumstances gathered during the conduct of quality review and color coding assessment that affect the repayment of each individual loan as of evaluation date.

#### ***4.1.2 Assessment of Significant Increase in Credit Risk***

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Bank assesses the change in the risk of a default occurring over the remaining life of the financial instrument. In making this assessment, the Bank assesses on a periodic basis both the quantitative and qualitative information that is reasonable and supportable, including historical experience as appropriate.

The Bank ECL model follows a three-stage impairment approach in determining the loss allowance to be recognized in the financial statements:

- (i) Stage 1 – comprises of all credit exposures that are considered ‘performing’ and with no observed SICR since initial recognition. These include those financial instruments with low credit risk. For these financial instruments, the loss allowance is determined based on a 12-month ECL.
- (ii) Stage 2 – comprises of all financial instruments assessed to have SICR since initial recognition based on the Bank’s quantitative and qualitative criteria, though not yet deemed to be credit-impaired. Stage 2 includes credit exposures that are considered ‘under-performing’ in which credit risk assessment fall under the Especially Mentioned classification. Stage 2 financial instruments may also include those facilities where the credit risk has improved and have been reclassified from Stage 3 subject to the Bank’s observation period on the creditworthiness of the counterparty. A lifetime ECL is recognized for these financial instruments.
- (iii) Stage 3 – comprises credit exposures which are assessed as ‘credit-impaired’, thus considered by the Bank as ‘non-performing’, which is assessed consistently with the Bank’s definition of default. Generally, this includes accounts classified as Substandard, Doubtful and Loss. The Bank recognizes a lifetime ECL for all credit-impaired financial assets.

Financial assets that are credit-impaired on initial recognition, if any, are classified as Purchased or Originated Credit Impaired (POCI) assets. ECL is only recognized or released to the extent that there is a subsequent change in the ECLs.

- 20 -

The credit risk of a particular exposure is deemed to have increased significantly since initial recognition if, based on the Bank's internal credit assessment, the borrower or counterparty is determined to have well-defined credit weaknesses. Significant increase in credit risk is holistically assessed by relying on the results of color coding as well as the number of days past due and collateral status of the borrower. Color coding transitions is being monitored on a timely basis so as to reflect the accurate condition of the credit exposures which further subject to the remedial measures by concerned lending units.

In subsequent reporting periods, if the credit risk of the financial instrument improves such that there is no longer a SICR since initial recognition, the Bank shall revert to recognizing a 12-month ECL. As a general rule, an upgrade or transfer of credit exposure from Stage 3 to Stage 1 is allowed when there is sufficient evidence to support that full collection of principal and interest is probable, consistent with the Bank's definition of curing period.

In identifying the color code of each account, careful assessment was made by Bank's CRMU to ensure the results of quantitative and qualitative assessment are accounted properly and is aligned to the definition of staging and classification of accounts set by the standards.

This staging and classification matrix also incorporated the comments and suggestions of the parent bank's technical working group handling ECL Model enhancements.

#### Initial Classification:

| Color Code    | Status                             | Stage | Classification       |
|---------------|------------------------------------|-------|----------------------|
| <b>GREEN</b>  | Current                            | 1     | Pass                 |
|               | Past due performing <sup>(1)</sup> | 2     | Especially Mentioned |
| <b>YELLOW</b> | Current                            | 1     | Pass                 |
|               | Past due performing                | 2     | Especially Mentioned |
|               | Past due non-performing            | 3     | Substandard          |
| <b>AMBER</b>  | Current <sup>(2)</sup>             | 1     | Pass                 |
|               | Past due performing <sup>(3)</sup> | 2     | Especially Mentioned |
|               | Past due non-performing            | 3     | Doubtful             |
| <b>ORANGE</b> | Current                            | 2     | Especially Mentioned |
|               | Past due performing                | 3     | Substandard          |
|               | Past due non-performing            | 3     | Doubtful             |
| <b>RED</b>    | Past due non-performing            | 3     | Doubtful             |
|               |                                    |       | Loss                 |

Notes:

<sup>(1)</sup> Technical past due accounts - Stage1/PASS

<sup>(2)</sup> Stage 2/EM if account is unmodified, no relief action program/plan availed

<sup>(3)</sup> Stage 3/ Substandard if under bucket 61-90 days PD

- 21 -

### Final Classification:

For Modified Accounts under Liquidity Risk Management (LRM), repackage, and restructured accounts.

1. Accounts which are “*Current*” upon repackaging/restructuring shall be initially classified to Stage 2 - Especially Mentioned.
  - 1.1 These accounts may improve to Stage 1 – Pass after maintaining its current status in the next 6 months, relative to the color classification.
2. Repackaged and restructured accounts with principal maturing at the end of the loan term (Balloon Modified Accounts).
  - 2.1 Those accounts repackaged and/or restructured only once shall have its ceiling of Stage 2 – Especially mentioned,
  - 2.2 Those accounts repackaged and/or restructured more than once shall have its ceiling of Stage 3 – Substandard.
3. Asset Quality Review
  - 3.1 The Bank follows the more conservative classification.

The Bank assigns loans based on classification into stages of impairment as follows:

| <u>Classification</u> | <u>Stages</u> |
|-----------------------|---------------|
| Unclassified          | 1             |
| Especially Mentioned  | 2             |
| Defaulted             | 3             |

For purposes of the information disclosed for credit risk exposures, ‘defaulted’ accounts include those which are classified as Substandard, Doubtful, and Loss.

#### **4.1.3 Definition of Default**

The Bank defines a loan instrument as in default, which is aligned with the definition of credit-impaired, based on quantitative information on number of days past due per definition of default and non-performing loans under BSP Manual of Regulations for Banks (MORB) Section 304.

As part of a qualitative assessment of whether a customer is in default, the Bank also considers a variety of instances and factors that may indicate unlikeliness of the borrower to pay, which may include (a) significant financial difficulty of the borrower; (b) the restructuring of a loan by the Bank, for economic or legal reasons relating to the borrower’s financial difficulty, on terms that the Bank would not consider otherwise; or (c) it becoming probable that the borrower will enter bankruptcy or other financial reorganization. When such events occur, the Bank carefully considers whether the event should result in treating the customer as in default.

- 22 -

A loan that has been renegotiated due to a deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment.

An instrument is considered to be no longer in default or have cured when the borrower is able to repay the instalments in arrears and the account no longer meets any of the default criteria for a consecutive period of 30 days within which the borrower shall make consecutive payments.

These criteria are consistent with the definition of default used for internal credit risk management purposes that is aligned with the default criteria used for regulatory capital purposes.

#### ***4.1.4 Expected Credit Loss Measurement Inputs***

Integral to the Bank's established policies in measuring and calculating ECL on financial instrument is the use of appropriate model that applies relevant inputs and assumptions, that considers forward-looking information (FLI) as appropriate.

##### *(a) Key Inputs and Assumptions in the ECL Model*

The ECL is determined by projecting the PD, LGD and EAD for each future month for exposures assessed collectively.

- (i)* PD represents an estimate of likelihood of a borrower defaulting on its financial obligation over a given time horizon, either over the next 12 months (12-month PD) or over the remaining lifetime (lifetime PD) of the obligation. Under the revised ECL model, PD is computed in a simpler manner focusing on the performance of the accounts. In determining PD, the Bank performed segmentation of its credit exposures stratified based on homogenous characteristics, and developed a systematic PD methodology for each color code classification. The Bank uses the term "Observe Default Frequency" which is calculated as the percentage of defaulted borrowers to total number of borrowers per each color code. To note, the CRMU initially computed PD on a per product basis but it was observed that the level of default per product type is relatively low per population count hence it was advised that it be consolidated bankwide.
- (ii)* LGD pertains to estimate of loss related to the amount that may not be recovered after the borrower defaults. In the revised ECL model, the Bank estimates LGD using population statistics considering the following elements: restructured, written-off, transferred to Real and Other Properties Acquired (ROPA) accounts. The computation is patterned on the concept applied by the Parent Bank which calculates LGD on two matrices using LGD factors of 10% for secured and 100% for unsecured. Conservatively, the Bank accounts for improvement in LGD factors only after the account has been fully recovered through settlement and collateral disposition (actual cash flow). Further, in lieu of the net present value computation, specific accounts with adverse conditions are automatically downgraded to lower color coding classification with corresponding higher loss rates.

## - 23 -

- (iii) EAD represents the gross carrying amount of the exposure in the event of default, which include the amortized cost amount of an instrument.

The 12-month and lifetime LGDs are determined based on the factors which impact the recoveries made post default, and may vary by product type. For secured products, this is primarily based on collateral type and projected collateral values, historical discounts to market or book values due to forced sales, time to repossession and recovery costs observed. For unsecured products, LGD is typically set at product level due to the limited differentiation in recoveries achieved across different borrowers. The LGD is influenced by collection strategies.

(b) *Overlay of Forward-looking Information*

The Bank incorporates FLI in its assessment of SICR and calculation of ECL. The Bank has performed historical analysis and has identified the key macroeconomic variables (MEVs) impacting credit risk associated with its borrowers and/or counterparties.

The MEVs and their associated impact on the PD, LGD and EAD vary by financial instrument. To project the MEVs for the full remaining life of each financial instrument, a mean reversion approach has been used, which means that MEVs tend to either a long run average rate (e.g., for unemployment) or a long run average lending rate over a period of two to five years. The impact of these economic variables on the PD, LGD and EAD has been determined by performing statistical regression analysis to understand the impact changes in these variables have had historically on default rates and on the components of LGD and EAD.

The MEVs considered by the Bank include economic data and forecasts published by government bodies (e.g., BSP and Philippine Statistics Authority), international organizations (e.g., International Monetary Fund), and certain reputable private and academic organizations involved in forecasting. Accordingly, the Bank has identified key drivers for credit risk for its loan portfolio, which include among others, unemployment rate, lending rate, and inflation rate. Using an analysis of historical data, the Bank has assessed that the above economic factors have no significant impact on the calculation of ECL. Management reviews and monitors the appropriateness of FLIs on a regular basis and additional factors may be incorporated from time to time as deemed appropriate.

#### **4.1.5 Impact of COVID-19 on Measurement of ECL**

In response to the COVID-19 situation and the Bank's expectations of economic impacts, the key conditions and assumptions utilized in the Bank's calculation of ECL have been revisited and recalibrated. Given the economic recovery in the Philippines post-pandemic, the impact of COVID-19 on the historical data of the Bank has been excluded, as default rates during the pandemic were unusually high.

The economic scenarios and forward-looking macroeconomic assumptions underpinning the ECL calculation are outlined in Note 4.1.1. As of December 31, 2023, the expected impacts of COVID-19 have been reasonably captured using the Bank's business-as-usual (BAU) ECL methodology (i.e., the ECL methodology consistently used in the prior years) and post-model adjustments.



- 24 -

Prior 2023, the Bank utilized its revised business-as-usual (BAU) ECL methodology, incorporating the impacts of COVID-19 on historical trends, correlations, and forward-looking economic scenarios of the Bank under its new normal assessments, eliminating the necessity for separate post-model adjustments. Notwithstanding that the measurement inputs and assumptions, including forward-looking macroeconomic assumptions were recalibrated in response to the COVID-19 situation, the fundamental ECL mechanics and methodology underpinning the Group's measurement of ECL have remained consistent with the prior periods.

In identifying the impact of COVID-19 pandemic to the Bank's customers, the Bank re-segmented its loan portfolio based on the perceived and expected COVID-19 impact to the customers' businesses and industries which also considers additional qualitative characteristics that would elevate COVID-19 changes to SICR such as differentiation of temporary liquidity need from permanently impacted or SICR.

Supporting the re-segmentation is the Recovery and Collection Execution (RACE) Program, primarily designed to: (1) extend financial assistance to customers by way of extended repayment plans given cash flow tightness and (2) immediately get the customer back into the habit of paying based on amounts they can afford. In accordance with regulatory guidance, the Bank also implemented mandatory payment holidays to all eligible loans (see also Note 4.1.8).

#### **4.1.6 Credit Risk Exposures and Allowance for Credit Losses**

##### **(a) Maximum Credit Exposures**

The table below sets out the gross carrying amounts of the exposures to credit risk on financial assets measured at amortized cost at the end of the reporting period, before taking into consideration the effect of collateral and other credit enhancements.

|  | Notes | 2023                          | 2022                          |
|--|-------|-------------------------------|-------------------------------|
| Cash   | 8     | <b>P 13,650,462</b>           | P 12,754,048                  |
| Due from BSP                                     | 8     | <b>80,981,879</b>             | 113,687,087                   |
| Due from other banks                             | 8     | <b>99,624,130</b>             | 124,000,360                   |
| Loans arising from reverse repurchase agreements | 8     | <b>32,951,139</b>             | 23,946,353                    |
| Loans and receivables:                           | 9     |                               |                               |
| Receivable from customers                        |       | <b>1,276,148,380</b>          | 1,234,418,375                 |
| Sales contract receivables                       |       | <b>19,183,941</b>             | 19,653,218                    |
| Accrued interest receivables                     |       | <b>7,369,612</b>              | 6,958,844                     |
| Others   |       | <b>2,705,276</b>              | 3,338,079                     |
| Rental and other deposits                        | 13    | <b>3,580,055</b>              | 3,497,561                     |
|  |       | <b><u>P 1,536,194,874</u></b> | <b><u>P 1,542,253,925</u></b> |

Cash equivalents, which include loans and advances to banks [i.e., Due from BSP, Due from Other Banks and Loans under Reverse Repurchase Agreements], see Note 8, are held with BSP and financial institutions counterparties that are reputable and with low credit risk. This includes the deposits to the Parent Bank (see Note 22.2).

## - 25 -

The information about the credit exposures on the Bank's loans and receivables by stages of impairment as of December 31, 2023 and 2022 is shown at their gross carrying amounts with the corresponding allowance for ECL are shown below.

(i) *Receivables from customers:*

|                       | <u>Stage 1</u>                | <u>Stage 2</u>             | <u>Stage 3</u>              | <u>Total</u>                  |
|-----------------------|-------------------------------|----------------------------|-----------------------------|-------------------------------|
| <b><u>2023</u></b>    |                               |                            |                             |                               |
| Credit Quality        |                               |                            |                             |                               |
| Unclassified          | P 1,011,138,764               | P -                        | P -                         | P 1,011,138,764               |
| Especially mentioned  | -                             | 58,279,458                 | -                           | 58,279,458                    |
| Defaulted             | -                             | -                          | 206,730,158                 | 206,730,158                   |
| Gross carrying amount | 1,011,138,764                 | 58,279,458                 | 206,730,158                 | 1,276,148,380                 |
| Allowance for ECL     | ( 5,885,975 )                 | ( 3,405,675 )              | ( 58,990,797 )              | ( 68,282,447 )                |
| Carrying amount       | <b><u>P 1,005,252,789</u></b> | <b><u>P 54,873,783</u></b> | <b><u>P 147,739,361</u></b> | <b><u>P 1,207,865,933</u></b> |
| <b><u>2022</u></b>    |                               |                            |                             |                               |
| Credit Quality        |                               |                            |                             |                               |
| Unclassified          | P 987,188,386                 | P -                        | P -                         | P 987,188,386                 |
| Especially mentioned  | -                             | 63,981,072                 | -                           | 63,981,072                    |
| Defaulted             | -                             | -                          | 183,248,917                 | 183,248,917                   |
| Gross carrying amount | 987,188,386                   | 63,981,072                 | 183,248,917                 | 1,234,418,375                 |
| Allowance for ECL     | ( 6,972,627 )                 | ( 3,560,037 )              | ( 57,377,659 )              | ( 67,910,323 )                |
| Carrying amount       | <b><u>P 980,215,759</u></b>   | <b><u>P 60,421,035</u></b> | <b><u>P 125,871,258</u></b> | <b><u>P 1,166,508,052</u></b> |

(ii) *Accrued interest receivables and others:*

|                       | <u>Stage 1</u>            | <u>Stage 2</u>          | <u>Stage 3</u>          | <u>Total</u>              |
|-----------------------|---------------------------|-------------------------|-------------------------|---------------------------|
| <b><u>2023</u></b>    |                           |                         |                         |                           |
| Credit Quality        |                           |                         |                         |                           |
| Unclassified          | P 9,302,014               | P -                     | P -                     | P 9,302,014               |
| Especially mentioned  | -                         | 337,872                 | -                       | 337,872                   |
| Defaulted             | -                         | -                       | 435,002                 | 435,002                   |
| Gross carrying amount | 9,302,014                 | 337,872                 | 435,002                 | 10,074,888                |
| Allowance for ECL     | ( 744,685 )               | -                       | -                       | ( 744,685 )               |
| Carrying amount       | <b><u>P 8,557,329</u></b> | <b><u>P 337,872</u></b> | <b><u>P 435,002</u></b> | <b><u>P 9,330,203</u></b> |
| <b><u>2022</u></b>    |                           |                         |                         |                           |
| Credit Quality        |                           |                         |                         |                           |
| Unclassified          | P 9,164,366               | P -                     | P -                     | P 9,164,366               |
| Especially mentioned  | -                         | 175,858                 | -                       | 175,858                   |
| Defaulted             | -                         | -                       | 956,699                 | 956,699                   |
| Gross carrying amount | 9,164,366                 | 175,858                 | 956,699                 | 10,296,923                |
| Allowance for ECL     | ( 683,630 )               | -                       | -                       | ( 683,630 )               |
| Carrying amount       | <b><u>P 8,480,736</u></b> | <b><u>P 175,858</u></b> | <b><u>P 956,699</u></b> | <b><u>P 9,613,293</u></b> |

(iii) *Sales contract receivables:*

The carrying amount of the Bank's sales contract receivables is P19.18 million and P19.65 million, respectively, and classified as Stage 1 category and are considered current as of December 31, 2023, and 2022, respectively. No ECL was recognized for the Bank's sales contract receivables in 2023 and 2022.

- 26 -

**(b) Allowance for ECL**

The table below shows the reconciliation of the loss allowance for ECL for receivable from customers as of December 31, 2023 and 2022.

|                               |          | <u>Stage 1</u>          | <u>Stage 2</u>            | <u>Stage 3</u>             | <u>Total</u>               |
|-------------------------------|----------|-------------------------|---------------------------|----------------------------|----------------------------|
| <b><u>2023</u></b>            |          |                         |                           |                            |                            |
| Balance at beginning year     | P        | 6,972,627               | P 3,560,037               | P 57,377,659               | P 67,910,323               |
| Transfers:                    |          |                         |                           |                            |                            |
| Stage 1 to Stage 2            | (        | 349,966)                | 349,966                   | -                          | -                          |
| Stage 2 to Stage 3            | -        | (                       | 1,274,763)                | 1,274,763                  | -                          |
| Stage 3 to Stage 2            | -        |                         | 231,452                   | ( 231,452)                 | -                          |
| Written-off                   | -        | -                       | -                         | ( 9,480,113)               | ( 9,480,113)               |
| Assets derecognized or repaid | (        | 752,786)                | ( 134,104)                | ( 1,177,019)               | ( 2,063,909)               |
| New assets originated:        |          |                         |                           |                            |                            |
| Remained in Stage 1           |          | 16,100                  | -                         | -                          | 16,100                     |
| Moved to Stage 2 and 3        |          | -                       | 673,087                   | 11,226,959                 | 11,900,046                 |
| Balance at end of year        | <b>P</b> | <b><u>5,885,975</u></b> | <b>P <u>3,405,675</u></b> | <b>P <u>58,990,797</u></b> | <b>P <u>68,282,447</u></b> |
| <b><u>2022</u></b>            |          |                         |                           |                            |                            |
| Balance at beginning year     | P        | 18,589,517              | P 10,972,129              | P 101,895,630              | P 131,457,276              |
| Transfers:                    |          |                         |                           |                            |                            |
| Stage 2 to Stage 1            |          | 1,386,697               | ( 1,386,697)              | -                          | -                          |
| Stage 1 to Stage 3            | (        | 990,450)                | -                         | 990,450                    | -                          |
| Stage 2 to Stage 3            | -        | (                       | 2,824,637)                | 2,824,637                  | -                          |
| Written-off                   | -        | (                       | 3,556,576)                | ( 44,234,264)              | ( 47,790,840)              |
| Assets derecognized or repaid | (        | 12,336,663)             | ( 421,195)                | ( 5,420,593)               | ( 18,178,451)              |
| New assets originated:        |          |                         |                           |                            |                            |
| Remained in Stage 1           |          | 323,526                 | -                         | -                          | 323,526                    |
| Moved to Stage 2 and 3        |          | -                       | 777,013                   | 1,321,799                  | 2,098,812                  |
| Balance at end of year        | <b>P</b> | <b><u>6,972,627</u></b> | <b>P <u>3,560,037</u></b> | <b>P <u>57,377,659</u></b> | <b>P <u>67,910,323</u></b> |

ECL on cash and cash equivalents and other financial instruments (except for receivable from customers) were assessed by management to be not significant.

The Bank recognized an allowance of P0.74 million and P0.68 million on accrued interest receivables and others. These financial instruments were in Stage 1 category and are considered current as of December 31, 2023, and 2022, respectively.

- 27 -

***(c) Significant Changes in Gross Carrying Amounts Affecting Allowance for ECL***

The table below provides information on how the significant changes in the gross carrying amounts of receivables from customers contributed to the change in the amount of allowance for ECL.

|                               | <u>Stage 1</u>                | <u>Stage 2</u>             | <u>Stage 3</u>              | <u>Total</u>                  |
|-------------------------------|-------------------------------|----------------------------|-----------------------------|-------------------------------|
| <b><u>2023</u></b>            |                               |                            |                             |                               |
| Balance at beginning year     | P 987,188,386                 | P 63,981,072               | P 183,248,917               | P 1,234,418,375               |
| Transfers:                    |                               |                            |                             |                               |
| Stage 1 to Stage 2            | ( 35,301,471)                 | 35,301,471                 | -                           | -                             |
| Stage 2 to Stage 3            | -                             | ( 25,629,526)              | 25,629,526                  | -                             |
| Stage 3 to Stage 2            | -                             | 6,417,145                  | ( 6,417,145)                | -                             |
| Written-off                   | -                             | -                          | ( 9,480,113)                | ( 9,480,113)                  |
| Assets derecognized or repaid | ( 658,742,766)                | ( 29,401,683)              | ( 2,478,695)                | ( 690,623,144)                |
| New assets originated:        |                               |                            |                             |                               |
| Remained in stage 1           | 717,994,615                   | -                          | -                           | 717,994,615                   |
| Moved to Stage 2 and 3        | -                             | 7,610,979                  | 16,227,668                  | 23,838,647                    |
| Balance at end of year        | <b><u>P 1,011,138,764</u></b> | <b><u>P 58,279,458</u></b> | <b><u>P 206,730,158</u></b> | <b><u>P 1,276,148,380</u></b> |
| <b><u>2022</u></b>            |                               |                            |                             |                               |
| Balance at beginning year     | P 814,849,075                 | P 139,679,008              | P 118,705,975               | P 1,073,234,058               |
| Transfers:                    |                               |                            |                             |                               |
| Stage 1 to Stage 2            | ( 45,978,523)                 | 45,978,523                 | -                           | -                             |
| Stage 2 to Stage 3            | -                             | ( 52,669,957)              | 52,669,957                  | -                             |
| Stage 3 to Stage 2            | -                             | 1,647,613                  | ( 1,647,613)                | -                             |
| Written-off                   | -                             | ( 3,556,576)               | ( 44,234,264)               | ( 47,790,840)                 |
| Assets derecognized or repaid | ( 332,708,879)                | ( 67,213,376)              | ( 37,150,937)               | ( 437,073,192)                |
| New assets originated:        |                               |                            |                             |                               |
| Remained in stage 1           | 551,026,713                   | -                          | -                           | 551,026,713                   |
| Moved to Stage 2 and 3        | -                             | 115,837                    | 94,905,799                  | 95,021,636                    |
| Balance at end of year        | <b><u>P 987,188,386</u></b>   | <b><u>P 63,981,072</u></b> | <b><u>P 183,248,917</u></b> | <b><u>P 1,234,418,375</u></b> |

***4.1.7 Collateral Held as Security and Other Credit Enhancements***

The Bank holds collateral against loans and advances to customers in the form of real estate mortgage, chattel mortgage, assignment of receivables, personal guaranty and other forms of security. Estimates of fair value are based on the value of collateral assessed at the time of borrowing and are updated as deemed appropriate (i.e., generally at the time of credit renewal or at foreclosure event).

Generally, collateral is not held over loans and advances to other banks, except when securities are held as part of reverse repurchase and securities borrowing arrangements.

- 28 -

The fair value of collateral and other security enhancements held against the loan portfolio as of December 31, 2023 and 2022 were classified per stage as follows:

|                    | <u>Stage 1</u>                | <u>Stage 2</u>              | <u>Stage 3</u>              | <u>Total</u>                  |
|--------------------|-------------------------------|-----------------------------|-----------------------------|-------------------------------|
| <b><u>2023</u></b> |                               |                             |                             |                               |
| Real properties    | P 1,830,340,652               | P 316,164,143               | P 183,183,555               | P 2,329,688,350               |
| Chattel            | 421,180,368                   | 23,751,134                  | 185,719,454                 | 630,650,956                   |
| Hold-out deposits  | <u>93,181,652</u>             | <u>2,629,120</u>            | <u>6,250,086</u>            | <u>102,060,858</u>            |
|                    | <b><u>P 2,344,702,672</u></b> | <b><u>P 342,544,397</u></b> | <b><u>P 375,153,095</u></b> | <b><u>P 3,062,400,164</u></b> |
| <b><u>2022</u></b> |                               |                             |                             |                               |
| Real properties    | P 2,287,309,464               | P 200,923,759               | P 36,096,320                | P 2,524,329,543               |
| Chattel            | 424,325,845                   | 26,324,659                  | 132,368,449                 | 583,018,953                   |
| Hold-out deposits  | <u>19,173,718</u>             | <u>2,209,226</u>            | <u>2,150,714</u>            | <u>23,533,658</u>             |
|                    | <b><u>P 2,730,809,027</u></b> | <b><u>P 229,457,644</u></b> | <b><u>P 170,615,483</u></b> | <b><u>P 3,130,882,154</u></b> |

The Bank has recognized certain properties arising from foreclosures in settlement of loan account amounting to P11.57 million and P14.84 million in 2023 and 2022, respectively (see Note 11).

The Bank's manner of disposing the collateral for impaired loans and receivables is normally through sale of these assets after foreclosure proceedings have taken place.

The Bank does not generally use the non-cash collateral for its own operations.

There were no changes in the Bank's collateral policies in 2023 and 2022.

#### ***4.1.8 Modifications of Financial Assets***

##### ***(a) Financial Reliefs Provided by the Bank***

In certain cases, the Bank modifies the terms of the loans provided to the borrowers due to commercial renegotiations, or for distressed loans, with a view of maximizing recovery of the contractual amount of obligation that the Bank is owed to. Restructuring policies and practices are based on indicators or criteria which, in the management's judgment, indicate that payment will most likely continue. Such policies are continuously reviewed and updated as necessary. Restructuring is most commonly applied to term or corporate loans.

On July 5, 2021, the Bank's BOD approved to launch RACE in response to client's request for additional loan payment relief measures. Many of the Bank's loan clients continue to suffer due to the impact of the pandemic on their business as well as other adverse situations that put the business in a difficult and challenging financial position.

Specifically, the following are the loan relief measures to be offered to clients:

- payment holiday with or without loan term extension;
- loan refinancing/repacking; and,
- loan restructuring.

- 29 -

On top of the government reliefs, the Bank has offered financial relief through its RACE Program, which was approved by the Executive Committee on May 28, 2020, in response to the COVID-19 situation. These relief measures were granted to eligible customers to allow them to get back into the habit of paying loans and included the following:

- payment relief including extension of contractual terms;
- principal and interest relief including lower amortization on extended term with interest payment only on the first year; and,
- extension of balloon repayment terms.

As of December 31, 2023 and 2022, the total outstanding balance of loans modified under the RACE Program amounts to P194.29 million and P202.47 million, respectively.

*(b) Assessment of SICR*

The risk of default of such assets after modification is assessed at the reporting date and compared with the risk under the original terms at initial recognition, when the modification is not substantial and so does not result in derecognition of the original asset. The Bank monitors the performance of the financial asset subsequent to its modification.

The Bank may determine that the credit risk has significantly improved after restructuring (in accordance with the new terms for six consecutive months or more), so that the assets are moved from Stage 3 or Stage 2.

The Bank continues to monitor if there is a subsequent SICR in relation to such modified assets through the use of specific models for modified assets (see also Note 4.1.2).

#### **4.2 Liquidity Risk**

Liquidity risk is the risk from inability of the Bank to settle its maturing obligations when they become due because of inability to liquidate assets or obtain adequate funding from other financing sources. In view of this, the Bank ensures that sufficient liquid assets are carefully managed to meet short-term and medium-term funding, and regulatory requirements.



## - 30 -

Analysis of maturity profile of the financial assets and financial liabilities of the Bank are shown below.

|   |    | Less than<br>One Month | One<br>to Three<br>Months | Three<br>Months to<br>One Year | More than<br>One Year | Non-Maturity          | Total                |
|---|----|------------------------|---------------------------|--------------------------------|-----------------------|-----------------------|----------------------|
| <b>2023</b>   |    |                        |                           |                                |                       |                       |                      |
| <i>Resources:</i>                                   |    |                        |                           |                                |                       |                       |                      |
| Cash  | P  | 13,650,462             | P -                       | P -                            | P -                   | P -                   | P 13,650,462         |
| Due from BSP  |    | 80,981,879             | -                         | -                              | -                     | -                     | 80,981,879           |
| Due from other banks                                |    | 99,624,130             | -                         | -                              | -                     | -                     | 99,624,130           |
| Loans arising from reverse<br>repurchase agreements |    | 32,951,139             | -                         | -                              | -                     | -                     | 32,951,139           |
| Loans and receivables:                              |    |                        |                           |                                |                       |                       |                      |
| Receivable from customers                           |    | 108,547,376            | 202,424,935               | 427,757,899                    | 471,096,314           | -                     | 1,209,826,524        |
| Accrued interest receivables                        |    | 7,369,612              | -                         | -                              | -                     | -                     | 7,369,612            |
| Sales contract receivables                          |    | 517,093                | 1,552,871                 | 4,265,150                      | 12,848,827            | -                     | 19,183,941           |
| Other Resources:                                    |    |                        |                           |                                |                       |                       |                      |
| Rental and other deposits                           |    | -                      | -                         | -                              | -                     | 3,580,055             | 3,580,055            |
|   |    | <u>343,641,691</u>     | <u>203,977,806</u>        | <u>432,023,049</u>             | <u>483,945,141</u>    | <u>3,580,055</u>      | <u>1,467,167,742</u> |
| <i>Liabilities:</i>                                 |    |                        |                           |                                |                       |                       |                      |
| Deposit liabilities                                 |    | 281,305,406            | 256,017,972               | 146,597,430                    | 2,466,049             | 305,996,957           | 992,383,814          |
| Accrued interest and<br>other expenses              |    | -                      | -                         | -                              | -                     | 12,106,691            | 12,106,691           |
| Bills Payable                                       |    | 40,000,00              | -                         | -                              | -                     | -                     | 40,000,000           |
| Other liabilities                                   |    | <u>33,462,630</u>      | <u>2,736,221</u>          | <u>11,097,142</u>              | <u>73,443,919</u>     | <u>-</u>              | <u>120,739,912</u>   |
|   |    | <u>354,768,036</u>     | <u>258,754,193</u>        | <u>157,694,572</u>             | <u>75,909,968</u>     | <u>318,103,648</u>    | <u>1,165,230,417</u> |
| Net periodic surplus (gap)                          | (  | <u>11,126,345</u>      | <u>( 54,776,387)</u>      | <u>274,328,477</u>             | <u>408,035,173</u>    | <u>( 314,523,593)</u> | <u>301,937,325</u>   |
| Cumulative total surplus                            | (P | <u>11,126,345</u>      | (P <u>65,902,732</u> )    | P <u>208,425,745</u>           | P <u>616,460,918</u>  | P <u>301,937,325</u>  | P <u>-</u>           |
| <b>2022</b>   |    |                        |                           |                                |                       |                       |                      |
| <i>Resources:</i>                                   |    |                        |                           |                                |                       |                       |                      |
| Cash  | P  | 12,754,048             | P -                       | P -                            | P -                   | P -                   | P 12,754,048         |
| Due from BSP  |    | 113,687,087            | -                         | -                              | -                     | -                     | 113,687,087          |
| Due from other banks                                |    | 124,000,360            | -                         | -                              | -                     | -                     | 124,000,360          |
| Loans arising from reverse<br>repurchase agreements |    | 23,946,353             | -                         | -                              | -                     | -                     | 23,946,353           |
| Loans and receivables:                              |    |                        |                           |                                |                       |                       |                      |
| Receivable from customers                           |    | 88,610,216             | 181,915,621               | 435,199,094                    | 463,437,570           | -                     | 1,169,162,501        |
| Accrued interest receivables                        |    | 6,958,844              | -                         | -                              | -                     | -                     | 6,958,844            |
| Sales contract receivables                          |    | 536,454                | 1,609,361                 | 4,291,630                      | 13,215,773            | -                     | 19,653,218           |
| Other Resources:                                    |    |                        |                           |                                |                       |                       |                      |
| Rental and other deposits                           |    | -                      | -                         | -                              | -                     | 3,497,561             | 3,497,561            |
|   |    | <u>370,493,362</u>     | <u>183,524,982</u>        | <u>439,490,724</u>             | <u>476,653,343</u>    | <u>3,497,561</u>      | <u>1,473,659,972</u> |
| <i>Liabilities:</i>                                 |    |                        |                           |                                |                       |                       |                      |
| Deposit liabilities                                 |    | 265,916,548            | 291,281,260               | 171,026,029                    | 3,034,818             | 318,696,095           | 1,049,954,750        |
| Accrued interest and<br>other expenses              |    | -                      | -                         | -                              | -                     | 12,301,861            | 12,301,861           |
| Other liabilities                                   |    | <u>41,065,589</u>      | <u>3,173,556</u>          | <u>8,462,816</u>               | <u>54,282,204</u>     | <u>-</u>              | <u>106,984,165</u>   |
|   |    | <u>306,982,137</u>     | <u>294,454,816</u>        | <u>179,488,845</u>             | <u>57,317,022</u>     | <u>330,997,956</u>    | <u>1,169,240,776</u> |
| Net periodic surplus (gap)                          | (  | <u>63,511,225</u>      | <u>( 110,929,834)</u>     | <u>260,001,879</u>             | <u>419,336,321</u>    | <u>( 327,500,395)</u> | <u>304,419,196</u>   |
| Cumulative total surplus                            | P  | <u>63,511,225</u>      | (P <u>47,418,609</u> )    | P <u>212,583,270</u>           | P <u>631,919,591</u>  | P <u>304,419,196</u>  | P <u>-</u>           |

The contractual maturities reflect the gross cash flows (including contractual interest on deposit liabilities) which may differ from the carrying values of the financial liabilities at the end of the reporting periods.

## - 31 -

### 4.3 Market Risk

#### Interest Rate Risk

Interest rate risk is the risk to earnings or capital resulting from adverse movements in the interest rates. The economic perspective of interest rate risk focuses on the value of a bank in the current interest rate environment and the sensitivity of that value to changes in interest rates.

The Bank closely monitors the movements of interest rates in the market and review its interest-bearing financial assets and liabilities structure to ensure that exposures to fluctuations in interest rates are kept within acceptable limits.

The following are the maturity profile of the Bank's interest-bearing financial instruments as of December 31, 2023 and 2022:

|   |   | Less than<br>One Month | One<br>to Three<br>Months | Three<br>Months to<br>One Year | More than<br>One Year | Non-Maturity         | Total                |
|---|---|------------------------|---------------------------|--------------------------------|-----------------------|----------------------|----------------------|
| <b>2023</b>   |   |                        |                           |                                |                       |                      |                      |
| <i>Resources:</i>                                   |   |                        |                           |                                |                       |                      |                      |
| Due from BSP  | P | 80,981,879             | P -                       | P -                            | P -                   | P -                  | P 80,981,879         |
| Due from other banks                                |   | 99,624,130             | -                         | -                              | -                     | -                    | 99,624,130           |
| Loans arising from reverse<br>repurchase agreements |   | 32,951,139             | -                         | -                              | -                     | -                    | 32,951,139           |
| Receivable from customers                           |   | 108,547,376            | 202,424,935               | 427,757,899                    | 471,096,314           | -                    | 1,209,826,524        |
| Sales contract receivables                          |   | 517,093                | 1,552,871                 | 4,265,150                      | 12,848,827            | -                    | 19,183,941           |
|   |   | <u>322,621,617</u>     | <u>203,977,806</u>        | <u>432,023,049</u>             | <u>483,945,141</u>    | <u>-</u>             | <u>1,442,567,613</u> |
| <i>Liabilities:</i>                                 |   |                        |                           |                                |                       |                      |                      |
| Deposit liabilities                                 |   | 281,305,406            | 256,017,972               | 146,597,430                    | 2,466,049             | 305,996,957          | 992,383,814          |
| Bills Payable                                       |   | 40,000,000             | -                         | -                              | -                     | -                    | 40,000,000           |
| Other liabilities                                   |   | 1,588,194              | 2,736,221                 | 11,097,142                     | 73,443,919            | -                    | 88,865,476           |
|   |   | <u>322,893,600</u>     | <u>258,754,193</u>        | <u>157,694,572</u>             | <u>75,909,968</u>     | <u>305,996,957</u>   | <u>1,121,249,290</u> |
| Net periodic surplus (gap)                          |   | ( 271,983 )            | ( 54,776,387 )            | 274,328,477                    | 408,035,173           | ( 305,996,957 )      | 321,318,323          |
| Cumulative total surplus                            |   | <u>(P 271,983)</u>     | <u>(P 55,048,370)</u>     | <u>P 219,280,107</u>           | <u>P 627,315,280</u>  | <u>P 321,318,323</u> | <u>P -</u>           |
| <b>2022</b>   |   |                        |                           |                                |                       |                      |                      |
| <i>Resources:</i>                                   |   |                        |                           |                                |                       |                      |                      |
| Due from BSP  | P | 113,687,087            | P -                       | P -                            | P -                   | P -                  | P 113,687,087        |
| Due from other banks                                |   | 124,000,360            | -                         | -                              | -                     | -                    | 124,000,360          |
| Loans arising from reverse<br>repurchase agreements |   | 23,946,353             | -                         | -                              | -                     | -                    | 23,946,353           |
| Receivable from customers                           |   | 88,610,216             | 181,915,621               | 435,199,094                    | 463,437,570           | -                    | 1,169,162,501        |
| Sales contract receivables                          |   | 536,454                | 1,609,361                 | 4,291,630                      | 13,215,773            | -                    | 19,653,218           |
|   |   | <u>350,780,470</u>     | <u>183,524,982</u>        | <u>439,490,724</u>             | <u>476,653,343</u>    | <u>-</u>             | <u>1,450,449,519</u> |
| <i>Liabilities:</i>                                 |   |                        |                           |                                |                       |                      |                      |
| Deposit liabilities                                 |   | 265,916,548            | 291,281,260               | 171,026,029                    | 3,032,818             | 318,696,095          | 1,049,954,750        |
| Other liabilities                                   |   | 1,057,852              | 3,173,556                 | 8,462,816                      | 54,282,204            | -                    | 66,976,428           |
|   |   | <u>266,974,400</u>     | <u>294,454,816</u>        | <u>179,488,845</u>             | <u>57,317,022</u>     | <u>318,696,095</u>   | <u>1,116,931,178</u> |
| Net periodic surplus (gap)                          |   | 83,806,070             | ( 110,929,834 )           | 260,001,879                    | 419,336,321           | ( 318,696,095 )      | 333,518,341          |
| Cumulative total surplus                            |   | <u>P 83,806,070</u>    | <u>(P 27,123,764)</u>     | <u>P 232,878,115</u>           | <u>P 652,214,436</u>  | <u>P 333,518,341</u> | <u>P -</u>           |

- 32 -

#### ***4.4 Impact of London Interbank Offered Rate (LIBOR) Reform***

As disclosed in Note 2.3(a), the Bank currently has no exposure to contracts which reference LIBOR and extend beyond 2021, including swaps which will transition under the International Swaps and Derivatives Association (ISDA) protocols.

In 2021, the Bank established a working team consisting of key personnel from treasury, finance, risk, IT, legal, compliance and lending groups to oversee the Bank's transition plan. This working group put in place a transition project for those contracts which reference USD LIBOR to transition them to Secured Overnight Financing Rate (SOFR), with the aim of minimizing the potential disruption to business and mitigating operational risks and possible financial losses. This transition project is considering changes to systems, processes, risk management and valuation models, as well as managing related tax and accounting implications. Significant risk areas affected by the replacement of LIBOR include: (i) updating systems and processes which capture USD LIBOR referenced contracts; (ii) amending affected contracts, or existing fallback/transition clauses not operating as anticipated; and (iii) reviewing mismatches in timing of derivatives and loans transitioning from USD LIBOR and the resulting impact on economic risk management.

As confirmed by the United Kingdom's Financial Conduct Authority that LIBOR setting will either cease to be provided or no longer representative for:

- all Sterling, Euro, Swiss Franc and Japanese Yen settings and the 1-week and 2-month USD settings by December 31, 2021; and,
- remaining overnight, 1-month, 3-month and 12-month USD settings by June 30, 2023.

The Bank has decided to continue the use of USD LIBOR for its outstanding contracts until June 30, 2023. On the other hand, beginning January 1, 2022, the Bank will use the Chicago Mercantile Exchange (CME) Term SOFR as reference for new loans while new derivative contracts will use SOFR.

As of December 31, 2022, the Bank has initiated set-up of the required changes to systems and processes to be fully implemented in 2023. Internal briefings were held across all lending units to disseminate the use of the new benchmark. The Bank also sent notice to identified clients advising them of benchmark developments and the Bank's adoption of CME Term SOFR for new loans beginning 2022. Loan documentations have also been reviewed for consistency with the new benchmark.

The Bank continues to engage with industry participants and the BSP, to ensure an orderly transition to SOFR and to minimize the risks associating from transition, and it will continue to identify and assess risks associated with the USD LIBOR replacement.

## - 33 -

The following are the key risks for the Bank arising from the transition:

- **Liquidity risk:** There are fundamental differences between LIBOR and the various alternative benchmark rates which the Bank will be adopting. LIBOR are forward-looking term rates published for a period (e.g., three months) at the beginning of that period and include an inter-bank credit spread, whereas alternative benchmark rates are typically risk-free overnight rates published at the end of the overnight period with no embedded credit spread. These differences will result in additional uncertainty regarding floating rate interest payments which will require additional liquidity management. The Bank's liquidity risk management policy has been updated to ensure sufficient liquid resources to accommodate unexpected increases in overnight rates.
- **Litigation risk:** If no agreement is reached to implement the interest rate benchmark reform on existing contracts (e.g., arising from differing interpretation of existing fallback terms), there is a risk of prolonged disputes with counterparties which could give rise to additional legal and other costs. The Bank is working closely with all counterparties to avoid this from occurring.
- **Operational risk:** The Bank's current treasury management system is undergoing upgrades to fully manage the transition to alternative benchmark rates and there is a risk that such upgrades are not fully functional in time, resulting in additional manual procedures which give rise to operational risks. The Bank is working closely with its system provider to ensure the relevant updates are made in good time and the Bank has alternative manual procedures in place with relevant controls to address any potential delay.

## 5. CAPITAL MANAGEMENT AND BSP REPORTING COMPLIANCE

### 5.1 Capital Management

It is the Bank's policy to maintain a strong capital base to sustain the development of its business and to meet regulatory capital requirements at all times. It also seeks to maintain a prudent balance between the advantages and flexibility afforded by a strong capital position and the higher returns on equity possible with greater leverage.

### 5.2 Regulatory Capital

The Bank's lead regulator, the BSP, sets and monitors the capital requirements of the Bank.

In implementing current capital requirements, the BSP requires the Bank to maintain a prescribed ratio of qualifying regulatory capital to total risk-weighted assets including market risk and operational risk computed based on BSP-prescribed formula provided under its relevant circulars.

On January 15, 2013, the BSP issued Circular No. 781, effective on January 1, 2014, *Basel III Implementing Guidelines on Minimum Capital Requirements*, which provides the implementing guidelines on the revised risk-based capital adequacy framework particularly on the minimum capital and disclosure requirements for universal banks and commercial banks, as well as their subsidiary bank and quasi-banks, in accordance with the Basel III standards.

- 34 -

Prior to 2014, the Bank is required to maintain a capital adequacy ratio (CAR) of 10% of qualifying regulatory capital to total risk-weighted assets including market risk and operational risk.

The BSP has adopted the Basel III risk-based capital adequacy framework effective January 1, 2014, which requires the Bank to maintain:

- Common Equity Tier 1 (CET1) of at least 6.0% of risk weighted assets;
- Tier 1 Capital of at least 7.5% of risk-weighted assets;
- Qualifying Capital (Tier 1 plus Tier 2 Capital) of at least 10.0% of risk-weighted assets; and,
- Capital Conservation Buffer of 2.5% of risk weighted assets, comprised of CET1 Capital.

In computing for the CAR, the regulatory qualifying capital is analyzed into two tiers which are: (i) Tier 1 Capital comprised of CET1 and Additional Tier 1 (AT1) capital, and, (ii) Tier 2 Capital, each adjusted for prescribed regulatory deductions.

Tier 1 Capital and Tier 2 Capital are defined as follows, subject to deductions as defined in relevant regulations:

(i) CET1 Capital includes the following:

- paid-up common stock;
- common stock dividends distributable;
- additional paid-in capital;
- deposit for common stock subscription;
- retained earnings;
- undivided profits;
- other comprehensive income from net unrealized gains or losses on financial assets at FVOCI and cumulative foreign currency translation; and,
- minority interest in subsidiary banks which are less than wholly-owned, subject to regulatory conditions.

(ii) AT1 Capital includes:

- instruments that do not qualify as CET1, but meet the criteria set out in Annex B of BSP Circular 781;
- financial liabilities meeting loss absorbency requirements set out in Annex E of BSP Circular 781;
- financial liabilities bearing loss absorbency features at point of non-viability as set out in Annex F of BSP Circular 781;
- additional paid-in capital resulting from issuance of AT1 capital;
- deposit for subscription to AT1 instruments; and,
- minority interest in subsidiary banks which are less than wholly-owned, subject to regulatory conditions.

(iii) Tier 2 Capital includes:

- instruments issued that are not qualified as Tier 1 capital but meet the criteria set forth in Annex C of BSP Circular 781;
- financial liabilities bearing loss absorbency features at point of non-viability as set out in Annex F of BSP Circular 781;
- deposit for subscription of Tier 2 capital;
- appraisal increment reserve – bank premises, as authorized by the Monetary Board;

- 35 -

- general loan loss provisions; and,
- minority interest in subsidiary banks that are less than wholly-owned, subject to regulatory conditions.

Risk assets consist of total assets after exclusion of cash on hand, due from BSP, loans covered by hold-out on or assignment of deposits, loans, or acceptances under letters of credit to the extent covered by margin deposits, and other non-risk items as determined by the Monetary Board of the BSP.

The Bank's regulatory capital position as reported to the BSP are shown below.

|  | <u>2023</u>                   | <u>2022</u>            |
|--|-------------------------------|------------------------|
| Tier 1 Capital   | <b>P 488,979,263</b>          | P 482,160,384          |
| Tier 2 Capital   | <b><u>432,044</u></b>         | <u>1,528,287</u>       |
| Total regulatory qualifying capital  | <b><u>P 489,411,307</u></b>   | <u>P 483,688,671</u>   |
| Total risk weighted assets   | <b><u>P 1,679,216,523</u></b> | <u>P 1,659,638,826</u> |
| Capital ratios:  |                               |                        |
| Total regulatory capital expressed as percentage of total risk-weighted assets | <b><u>29.15%</u></b>          | <u>29.14%</u>          |
| Total Tier 1 expressed as percentage of total risk-weighted assets             | <b><u>29.12%</u></b>          | <u>29.05%</u>          |

The Bank is in compliance with the minimum capital requirement of the BSP for thrift banks (with head office outside national capital region with 11 to 50 branches) amounting to P400 million as of December 31, 2023 and 2022.

### 5.3 Leverage Ratio

On June 9, 2015, the BSP issued Circular No. 881, *Implementing Guidelines on the Basel III Leverage Ratio Framework*, which provides the implementing guidelines on the leverage ratio framework designed to act as a supplementary measure to the risk-based capital requirements. It sets out a minimum leverage ratio of 5.00% and shall be complied with at all times.

The Basel III leverage ratio is defined as the ratio of capital measure (Tier 1 Capital) and the exposure measure which include on-balance sheet and securities financing transactions exposures and off-balance sheet items.

The Bank's Basel III leverage ratio as reported to the BSP are as follows:

|                  | <u>2023</u>                 | <u>2022</u>          |
|------------------|-----------------------------|----------------------|
| Tier 1 Capital   | <b>P 488,979,263</b>        | P 482,160,384        |
| Exposure Measure | <b><u>1,679,790,359</u></b> | <u>1,684,223,699</u> |
|                  | <b><u>29.11%</u></b>        | <u>28.63%</u>        |



- 36 -

#### 5.4 Liquidity Coverage Ratio and Net Stable Funding Ratio

On March 10, 2016, the BSP issued Circular No. 905, *Implementation of Basel III Framework on Liquidity Standards - Liquidity Coverage Ratio and Disclosure Standards*, which provides the implementing guidelines on liquidity coverage ratio (LCR) and disclosure standards that are consistent with the Basel III framework. This Circular requires the Bank to maintain available High Quality Liquid Assets (HQLA) to meet anticipated net cash outflows for a 30-day periods under stress conditions. The Bank has fully complied with the LCR minimum requirement of 100% coverage effective January 1, 2019.

To strengthen the Bank's short-term liquidity position and as a defense against potential onset of liquidity stress, it maintains adequate stock of unencumbered HQLAs that consists of cash or assets that can be freely converted into cash at little or no loss of value in private markets.

The Bank's LCR is analyzed below.

|                            |   | <b>Total<br/>Unweighted<br/>Value</b> |   | <b>Total<br/>Weighted<br/>Value</b> |
|----------------------------|---|---------------------------------------|---|-------------------------------------|
| <b><u>2023</u></b>         |   |                                       |   |                                     |
| Total stock of HQLA        | P | 127,583,480                           | P | 127,583,480                         |
| Expected Net Cash Outflows |   | 876,466,827                           |   | <u>91,321,672</u>                   |
| LCR                        |   |                                       |   | <u><b>139.71%</b></u>               |
| <b><u>2022</u></b>         |   |                                       |   |                                     |
| Total stock of HQLA        | P | 150,387,488                           | P | 150,387,488                         |
| Expected Net Cash Outflows |   | 954,385,690                           |   | <u>79,122,926</u>                   |
| LCR                        |   |                                       |   | <u><b>190.07%</b></u>               |

Net Stable Funding Ratio (NSFR), as detailed in BSP Circular 1007, *Implementing Guidelines on the Adoption of the Basel III Framework on Liquidity Standards - Net Stable Funding Ratio*, measures the availability of medium and long-term stable funding to support illiquid assets and business activities on an on-going basis. It is an assessment of the level of sustainable funding required to reduce funding risk over a one-year time horizon. The NSFR complements the LCR, which promotes short-term resilience of the Bank's liquidity profile.

To promote long-term resilience against liquidity risk, the Bank maintains a stable funding profile in relation to the composition of its assets and off-balance sheet activities and seeks to meet this objective by limiting over reliance on short-term wholesale funding and promoting enhanced assessment of funding risk across all on- and off-balance sheet accounts.

The Bank's Basel III NSFR are summarized below.

|                          | <b><u>2023</u></b>          | <b><u>2022</u></b>   |
|--------------------------|-----------------------------|----------------------|
| Available stable funding | <b>P 1,397,151,456</b>      | P 1,442,725,298      |
| Required stable funding  | <u><b>1,030,950,731</b></u> | <u>1,000,060,483</u> |
| Basel III NSFR           | <u><b>1.36%</b></u>         | <u>1.44%</u>         |

- 37 -

## 6. CATEGORIES AND OFFSETTING OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

### 6.1 Carrying Amounts and Fair Values by Category

The carrying amounts and fair values of the categories of financial assets and financial liabilities presented in the statements of financial position are shown below.

| Notes  | 2023             |                        | 2022                   |                        |
|--|------------------|------------------------|------------------------|------------------------|
|  | Carrying Amounts | Fair Values            | Carrying Amounts       | Fair Values            |
| <b>Financial Assets</b>                          |                  |                        |                        |                        |
| At amortized cost:                               |                  |                        |                        |                        |
| Cash   | 8                | P 13,650,462           | P 13,650,462           | P 12,754,048           |
| Due from BSP                                     | 8                | 80,981,879             | 80,981,879             | 113,687,087            |
| Due from other banks                             | 8                | 99,624,130             | 99,624,130             | 124,000,360            |
| Loans arising from reverse repurchase agreements | 8                | 32,951,139             | 32,951,139             | 23,946,353             |
| Loans and receivables – net                      | 9                | 1,236,380,077          | 1,149,098,067          | 1,195,774,563          |
| Other resources:                                 |                  |                        |                        |                        |
| Rental and other deposits                        | 13               | 3,580,055              | 3,580,055              | 3,497,561              |
|  |                  | 1,467,167,742          | 1,379,885,732          | 1,473,659,972          |
| At fair value –                                  |                  |                        |                        |                        |
| Financial assets at FVOCI                        | 13               | 17,100,271             | 17,100,271             | 13,672,806             |
|  |                  | <u>P 1,484,268,013</u> | <u>P 1,396,986,003</u> | <u>P 1,487,332,778</u> |
|  |                  |                        |                        | <u>P 1,367,284,292</u> |
| <b>Financial Liabilities</b>                     |                  |                        |                        |                        |
| At amortized cost:                               |                  |                        |                        |                        |
| Deposit liabilities                              | 14               | P 992,383,814          | P 996,244,843          | P 1,049,954,750        |
| Bills payable                                    | 16               | 40,000,000             | 40,000,000             | -                      |
| Accrued interest and other expenses              | 15               | 12,106,691             | 12,106,691             | 12,301,861             |
| Other liabilities                                | 16               | 120,739,912            | 120,739,912            | 106,984,165            |
|  |                  | <u>P 1,165,230,417</u> | <u>P 1,169,091,446</u> | <u>P 1,169,240,776</u> |
|  |                  |                        |                        | <u>P 1,173,480,537</u> |

Management considers that the carrying amounts of the Bank's financial instruments which are measured at amortized cost approximate their fair values either because these financial instruments have maturities of one year or less, or the effect of discounting for those with maturities of more than one year is immaterial. The fair value of financial assets at FVOCI is determined using valuation technique disclosed in Note 7.2.

### 6.2 Offsetting of Financial Assets and Financial Liabilities

Certain financial assets and financial liabilities of the Bank with amounts presented in the statements of financial position as at December 31, 2023 and 2022 are subject to offsetting, enforceable master netting arrangements and similar agreements. However, there were no financial assets and financial liabilities presented at net in the statements of financial position. Presented below is the financial assets and financial liabilities subject to offsetting but the related amounts are not set-off in the statements of financial position.

|                         | December 31, 2023  |                     |                 | December 31, 2022  |                     |                 |
|-------------------------|--|---------------------|-----------------|--|---------------------|-----------------|
|                         | Related amounts not set-off in the statement of financial position |                     |                 | Related amounts not set-off in the statement of financial position |                     |                 |
|                         | Financial instruments  | Collateral received | Net amount      | Financial instruments  | Collateral received | Net amount      |
| Financial assets –      |  |                     |                 |  |                     |                 |
| Loans and receivables   | P 1,236,380,077  | (P 102,060,859)     | P 1,134,319,218 | P 1,195,774,563  | (P 23,533,658)      | P 1,172,240,905 |
| Financial liabilities – |  |                     |                 |  |                     |                 |
| Deposit liabilities     | P 992,383,814  | (P 102,060,859)     | P 890,322,955   | P 1,049,954,750  | (P 23,533,658)      | P 1,026,421,092 |

- 38 -

For purposes of presenting the information, the related amounts not set-off in the statements of financial position pertains to hold-out deposit which serves as the Bank's collateral enhancement for certain loans and receivables. The financial instruments that can be set-off are only disclosed to the extent of the amounts of the Bank's counterparties.

For financial assets subject to enforceable master netting arrangements or similar arrangements between the Bank and counterparties allows for net settlement of the relevant financial assets and liabilities when both elect to settle on a net basis. In the absence of such election, financial assets and liabilities will be settled on a gross basis, however, each party to the master netting agreement or similar agreement will have the option to settle all such amounts on a net basis in the event of default of the other party.

## 7. FAIR VALUE MEASUREMENT AND DISCLOSURES

### 7.1 Fair Value Hierarchy

In accordance with PFRS 13, *Fair Value Measurement*, the fair value of financial assets and financial liabilities and non-financial assets which are measured at fair value on a recurring or non-recurring basis and those assets and liabilities not measured at fair value but for which fair value is disclosed in accordance with other relevant PFRS, are categorized into three levels based on the significance of inputs used to measure the fair value.

The fair value hierarchy has the following levels:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities that an entity can access at the measurement date;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and,
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The level within which the asset or liability is classified is determined based on the lowest level of significant input to the fair value measurement.

For purposes of determining the market value at Level 1, a market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

For investments which do not have quoted market price, the fair value is determined by using generally acceptable pricing models and valuation techniques or by reference to the current market value of another instrument which is substantially the same after taking into account the related credit risk of counterparties, or is calculated based on the expected cash flows of the underlying net asset base of the instrument.

When the Bank uses valuation technique, it maximizes the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to determine the fair value of an instrument are observable, the instrument is included in Level 2. Otherwise, it is included in Level 3.

- 39 -

## 7.2 Financial Instruments Measured at Fair Value

The Bank's financial asset at FVOCI, which consist of investment in unquoted equity securities of a privately-owned company, amounted to P17.10 million and P13.67 million as of December 31, 2023 and 2022, respectively (see Note 13.1).

As of December 31, 2023 and 2022, the fair value of the Bank's equity securities categorized under Level 3 of the fair value hierarchy, is estimated and determined through valuation technique using the dividend discounted model. The management assessed that considering the regular dividend payments expected from the investee company in the future, this valuation technique provides appropriate measurement of the fair value of the investment. In discounting the cash flows from dividends, the Bank used a discount rate of 7.38% and 9.23% in 2023 and 2022, respectively.

The reconciliation of the carrying amount of financial assets at FVOCI under Level 3 of the fair value hierarchy is shown below.

|                              | Note | 2023                | 2022                |
|------------------------------|------|---------------------|---------------------|
| Balance at beginning of year |      | P 13,672,806        | P 26,106,961        |
| Fair value gains (losses)    |      | <u>3,427,465</u>    | <u>(12,434,155)</u> |
| Balance at end of year       | 13   | <u>P 17,100,271</u> | <u>P 13,672,806</u> |

## 7.3 Fair Value of Financial Instruments Measured at Amortized Cost

The fair value hierarchy of cash and cash equivalents is within Level 1, while fair value hierarchy of all other financial assets and financial liabilities measured at amortized cost is within Level 3.

The following are the methods used to determine the fair value of financial assets and financial liabilities not presented in the statements of financial position at their fair values:

### (a) Cash and Cash Equivalents

Due from BSP and Due from other banks include items in the course of collection. The fair value of floating rate placements and overnight deposits is their carrying amount. The estimated fair value of fixed interest-bearing deposits is based on discounted cash flows using prevailing money market interest rates for debts with similar credit risk and remaining maturity, which for short-term deposits approximate the nominal value.

### (b) Loans and Receivables

Loans and receivables are net of provisions for impairment. The estimated fair value of loans and receivables represents the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted at current market rates to determine fair value.

### (c) Deposit Liabilities

The estimated fair value of deposits is the amount repayable on demand.

- 40 -

(d) *Other Resources and Other Liabilities*

Due to their short duration, the carrying amounts of other resources and liabilities in the statements of financial position are considered to be reasonable approximation of their fair values.

**7.4 Fair Value Disclosures for Investment Properties and Non-Current Assets Classified as Held for Sale**

For purposes of determining the fair value hierarchy, the Bank categorized the fair value disclosed for investment properties within Level 3 wherein the inputs used in the determination of fair value are not based on observable market data or the significant adjustments were made on the observable prices used as reference of fair value.

The fair values disclosed for the Bank's investment properties and non-current assets held for sale as of December 31, 2023 and 2022 were based on the appraisals performed by the Bank's internal appraisers and independent and qualified appraisers having appropriate and recent experience in the fair value measurement of similar properties in the relevant locations.

To some extent, the valuation process conducted by the appraisers was made in discussion with the Bank's management with respect to the determination of the inputs such as the size, age, and condition of the land, and the comparable prices in the corresponding property location. In estimating the fair values of the investment properties and non-current asset held for sale, management takes into account the market participant's ability to generate economic benefits by using the assets in their highest and best use. Based on management assessment, the best use of the Bank's investment properties is agricultural utilization.

The Level 3 fair value of land was derived using the observable recent prices of the reference properties and were adjusted for differences in key attributes such as property size, zoning and accessibility. The most significant input into this valuation approach is the price per square meter; hence, the higher the price per square meter, the higher the fair value of the properties.

As of December 31, 2022, the total estimated fair values of the investment properties P111.20 million (see Notes 11).

On October 25, 2023, the Bank reclassified all its investment properties as non-current assets classified as held for sale. The total estimated fair value of the non-current assets held for sale amounted to P151.57 million (see Note 12).

**8. CASH AND CASH EQUIVALENTS**

The components of Cash and Cash Equivalents account are as follows:

|  | <u>2023</u>          | <u>2022</u>          |
|--|----------------------|----------------------|
| Cash   | P 13,650,462         | P 12,754,048         |
| Due from BSP                                     | 80,981,879           | 113,687,087          |
| Due from other banks                             | 99,624,130           | 124,000,360          |
| Loans arising from reverse repurchase agreements | <u>32,951,139</u>    | <u>23,946,353</u>    |
|  | <u>P 227,207,610</u> | <u>P 274,387,848</u> |

- 41 -

Cash consist of funds in the form of Philippine currency notes and coins in the Bank's vault.

Due from BSP represents the aggregate balance of deposit accounts in local currency maintained with BSP primarily to meet reserve requirements and to serve as a clearing account for interbank claims (see Note 14). The outstanding balance as of December 31, 2023 and 2022 includes Overnight Deposit Facility with the BSP amounting P61.0 million and P32.0 million, respectively, bearing annual interest rates of 6.0% and having a one day term.

Placements with BSP are all denominated in Philippine peso at the end of each reporting period.

Due from other banks represents regular deposits with local banks with annual interest rates ranging from 0.25% to 1.00% in 2023, and from 0.10% to 0.25% in 2022.

Loans arising from reverse repurchase agreements bear interest of 6.38% and 5.50% in 2023 and 2022, respectively.

Interest income earned from cash equivalents are as follows:

|                      | <u>2023</u>               | <u>2022</u>               |
|----------------------|---------------------------|---------------------------|
| Due from BSP         | <b>P 3,163,056</b>        | P 1,356,709               |
| Due from other banks | <u>1,632,219</u>          | <u>541,767</u>            |
|                      | <b><u>P 4,795,275</u></b> | <b><u>P 1,898,476</u></b> |

## 9. LOANS AND RECEIVABLES

This account is composed of the following:

|                              | <u>Note</u> | <u>2023</u>                   | <u>2022</u>                   |
|------------------------------|-------------|-------------------------------|-------------------------------|
| Loans and discounts –        |             |                               |                               |
| Receivable from customers    |             | <b>P 1,276,148,380</b>        | P 1,234,418,375               |
| Other receivables:           |             |                               |                               |
| Sales contract receivables   | 10          | <b>19,183,941</b>             | 19,653,218                    |
| Accrued interest receivables |             | <b>7,369,612</b>              | 6,958,844                     |
| Others                       |             | <u>2,705,276</u>              | <u>3,338,079</u>              |
|                              |             | <b>1,305,407,209</b>          | 1,264,368,516                 |
| Allowance for impairment     |             | <b>( 69,027,132)</b>          | <b>( 68,593,953)</b>          |
|                              |             | <b><u>P 1,236,380,077</u></b> | <b><u>P 1,195,774,563</u></b> |

Loans and receivables earn an average effective interest at rates ranging from 1.00% to 48.15% per annum, and from 5.00% to 53.16% per annum in 2023 and 2022, respectively. Interest income earned from loans and receivables amounting to P201.38 million and P176.47 million in 2023 and 2022, respectively, and presented as part of Interest Income in the statements of comprehensive income.

Sales contract receivable represents the present value of the installment receivable arising from the sale of investment properties and asset held for sale on an installment basis.



- 42 -

Accounts receivable consist of cash advances to officers and employees subject to liquidation.

The changes in the total amount of allowance for impairment of loans and receivables are summarized below.

|   | <u>Note</u> | <u>2023</u>                | <u>2022</u>                |
|---|-------------|----------------------------|----------------------------|
| Balance at beginning of year                  |             | <b>P 68,593,953</b>        | P 132,160,962              |
| Impairment losses during the year             |             | <b>9,913,292</b>           | -                          |
| Write-offs                                    |             | <b>( 9,480,113)</b>        | ( 47,790,840)              |
| Reversal of impairment losses during the year |             | -                          | ( 15,756,114)              |
| Transfer to other account                     | 11          | <u>-</u>                   | <u>( 20,055)</u>           |
| Balance at end of year                        |             | <b><u>P 69,027,132</u></b> | <b><u>P 68,593,953</u></b> |

#### 10. BANK PREMISES, FURNITURE, FIXTURES AND EQUIPMENT

The gross carrying amounts and accumulated depreciation and amortization of bank premises, furniture, fixtures and equipment at the beginning and end of 2023 and 2022 are shown below.

|   | <u>Land</u>                | <u>Buildings</u>           | <u>Furniture,<br/>Fixtures<br/>and Office<br/>Equipment</u> | <u>Leasehold<br/>Improvements</u> | <u>Transportation<br/>Equipment</u> | <u>Right-of-<br/>Use Assets</u> | <u>Construction<br/>in Progress</u> | <u>Total</u>                |
|---|----------------------------|----------------------------|---|-----------------------------------|-------------------------------------|---------------------------------|-------------------------------------|-----------------------------|
| December 31, 2023                         |                            |                            |   |                                   |                                     |                                 |                                     |                             |
| Cost                                      | P -                        | P -                        | P 51,005,581  | P 84,881,628                      | P 24,316,178                        | P 92,176,176                    | P -                                 | P 252,379,563               |
| Accumulated depreciation and amortization | <u>-</u>                   | <u>-</u>                   | <u>( 42,828,854)</u>  | <u>( 53,082,144)</u>              | <u>( 7,848,882)</u>                 | <u>( 14,531,476)</u>            | <u>-</u>                            | <u>( 118,291,356)</u>       |
| Net carrying amount                       | <b><u>P -</u></b>          | <b><u>P -</u></b>          | <b><u>P 8,176,727</u></b>                                   | <b><u>P 31,799,484</u></b>        | <b><u>P 16,467,296</u></b>          | <b><u>P 77,644,700</u></b>      | <b><u>P -</u></b>                   | <b><u>P 134,088,207</u></b> |
| December 31, 2022                         |                            |                            |   |                                   |                                     |                                 |                                     |                             |
| Cost                                      | P -                        | P -                        | P 48,135,329  | P 76,737,967                      | P 22,491,842                        | P 69,548,432                    | P 4,509,994                         | P 221,423,564               |
| Accumulated depreciation and amortization | <u>-</u>                   | <u>-</u>                   | <u>( 41,487,942)</u>  | <u>( 46,421,943)</u>              | <u>( 6,080,373)</u>                 | <u>( 12,309,441)</u>            | <u>-</u>                            | <u>( 106,299,706)</u>       |
| Net carrying amount                       | <b><u>P -</u></b>          | <b><u>P -</u></b>          | <b><u>P 6,647,380</u></b>                                   | <b><u>P 30,316,024</u></b>        | <b><u>P 16,411,469</u></b>          | <b><u>P 57,238,991</u></b>      | <b><u>P 4,509,994</u></b>           | <b><u>P 115,123,858</u></b> |
| January 1, 2022                           |                            |                            |   |                                   |                                     |                                 |                                     |                             |
| Cost                                      | P 33,441,945               | P 33,431,348               | P 47,908,264  | P 72,612,564                      | P 16,579,199                        | P 62,614,304                    | P -                                 | P 266,587,624               |
| Accumulated depreciation and amortization | <u>-</u>                   | <u>( 21,797,572)</u>       | <u>( 39,210,750)</u>  | <u>( 39,644,190)</u>              | <u>( 12,425,444)</u>                | <u>( 11,799,424)</u>            | <u>-</u>                            | <u>( 124,877,380)</u>       |
| Net carrying amount                       | <b><u>P 33,441,945</u></b> | <b><u>P 11,633,776</u></b> | <b><u>P 8,697,514</u></b>                                   | <b><u>P 32,968,374</u></b>        | <b><u>P 4,153,755</u></b>           | <b><u>P 50,814,880</u></b>      | <b><u>P -</u></b>                   | <b><u>P 141,710,244</u></b> |

## - 43 -

A reconciliation of the carrying amounts of bank premises, furniture, fixtures and equipment at the beginning and end of 2023 and 2022 are shown below.

|  | <u>Land</u>    | <u>Buildings</u> | <u>Furniture,<br/>Fixtures<br/>and Office<br/>Equipment</u> | <u>Leasehold<br/>Improvements</u> | <u>Transportation<br/>Equipment</u> | <u>Right-of-<br/>Use Assets</u> | <u>Construction<br/>in Progress</u> | <u>Total</u>         |
|--|----------------|------------------|---|-----------------------------------|-------------------------------------|---------------------------------|-------------------------------------|----------------------|
| Balance at January 1, 2023,<br>net of accumulated<br>depreciation and<br>amortization  | P -            | P -              | P 6,647,380   | P 30,316,024                      | P 16,411,469                        | P 57,238,991                    | P 4,509,994                         | P 115,123,858        |
| Additions  | -              | -                | 4,481,883   | 8,143,661                         | 3,087,079                           | 34,937,186                      | -                                   | 50,649,809           |
| Disposals  | -              | -                | ( 6,179 )   | -                                 | ( 92,674 )                          | -                               | ( 4,509,994 )                       | ( 4,608,847 )        |
| Depreciation and<br>amortization charges<br>for the year                               | -              | -                | ( 2,946,357 )   | ( 6,660,201 )                     | ( 2,938,578 )                       | ( 14,531,477 )                  | -                                   | ( 27,076,613 )       |
| Balance at December 31, 2023<br>net of accumulated<br>depreciation and<br>amortization | <u>P -</u>     | <u>P -</u>       | <u>P 8,176,727</u>  | <u>P 31,799,484</u>               | <u>P 16,467,296</u>                 | <u>P 77,644,700</u>             | <u>P -</u>                          | <u>P 134,088,207</u> |
| Balance at January 1, 2022,<br>net of accumulated<br>depreciation and<br>amortization  | P 33,441,945   | P 11,633,776     | P 8,697,514   | P 32,968,374                      | P 4,153,755                         | P 50,814,880                    | P -                                 | P 141,710,244        |
| Additions  | -              | -                | 2,353,846   | 4,529,998                         | 14,898,069                          | 18,733,552                      | 4,509,994                           | 45,025,459           |
| Disposals  | ( 33,441,945 ) | ( 10,693,000 )   | ( 46,746 )  | -                                 | ( 562,809 )                         | -                               | -                                   | ( 44,744,500 )       |
| Depreciation and<br>amortization charges<br>for the year                               | -              | ( 940,776 )      | ( 4,357,234 )   | ( 7,182,348 )                     | ( 2,077,546 )                       | ( 12,309,441 )                  | -                                   | ( 26,867,345 )       |
| Balance at December 31, 2022<br>net of accumulated<br>depreciation and<br>amortization | <u>P -</u>     | <u>P -</u>       | <u>P 6,647,380</u>  | <u>P 30,316,024</u>               | <u>P 16,411,469</u>                 | <u>P 57,238,991</u>             | <u>P 4,509,994</u>                  | <u>P 115,123,858</u> |

Under BSP rules, investments in bank premises, furniture, fixtures and equipment should not exceed 50% of a bank's unimpaired capital. As of December 31, 2023 and 2022, the Bank has satisfactorily complied with this BSP requirement.

The Bank disposed of certain bank premises, furniture, fixtures and equipment amounting to P4.61 million and P44.74 million in 2023 and 2022, respectively. Such disposals resulted in a gain amounting to P0.06 million and P5.87 million in 2023 and 2022, respectively, and are presented as part of Other Operating Income in the statements of comprehensive income (see Note 18).

In 2022, the Bank disposed of certain land and building with a net book value of P10.93 million and P7.59 million, respectively, through a sales contract with the buyer at a total consideration of P24.40 million, resulting in a gain of P5.87 million. The outstanding balance as of December 31, 2023 and 2022 amounting to P19.18 million and P19.65 million, respectively, is included as part of Sales contract receivables under the Loans and Receivables account in the statements of financial position (see Note 9). There was no similar transaction in 2023.

The cost of fully depreciated assets that are still being used in operation amounts to P64.42 million and P54.93 million as of December 31, 2023 and 2022, respectively.

None of the Bank's premises and other property and equipment were used as collateral or security to any liability or commitment as of the end of each reporting period.

- 44 -

The Bank has several leases covering the office space of its branches. Terms of the lease agreements range from two to ten years and include escalation rates ranging from 4.5% to 6.0%. With the exception of short-term leases and leases of low-value underlying assets, each lease is reflected as a right-of-use asset under Bank Premises, Furniture, Fixtures and Equipment and the related obligation as Lease liabilities under Other Liabilities (see Note 16) on the statements of financial position. The Bank recognized right-of-use assets with average remaining term of two to eight years as of December 31, 2023 and 2022.

## 11. INVESTMENT PROPERTIES

Investment properties pertain to parcels of land and building acquired through foreclosure in settlement of borrower's loan accounts. These are held by the Bank for capital appreciation and rentals.

On May 29, 2023, RCBC's BOD approved a disposal plan for all of the Bank's investment properties to comply with constitutional requirements on land ownership. This project consisted of three projects, one of which is the sale of consolidated real and other properties acquired nationwide that includes properties of both the RCBC and its subsidiaries.

Consequently, on October 25, 2023, the Bank reclassified all its investment properties to non-current assets held for sale in compliance with the directives of the parent bank.

The gross carrying amounts and accumulated depreciation and impairment losses of investment properties at the beginning and end of 2022 are shown below.

|                          | <u>Land</u>         | <u>Buildings</u>    | <u>Total</u>        |
|--------------------------|---------------------|---------------------|---------------------|
| December 31, 2022        |                     |                     |                     |
| Cost                     | P 47,768,097        | P 12,157,815        | P 59,925,912        |
| Accumulated depreciation | <u>-</u>            | <u>(1,991,055)</u>  | <u>(1,991,055)</u>  |
| Net carrying amount      | <u>P 47,768,097</u> | <u>P 10,166,760</u> | <u>P 57,934,857</u> |
| January 1, 2022          |                     |                     |                     |
| Cost                     | P 40,410,543        | P 12,494,880        | P 52,905,423        |
| Accumulated depreciation | <u>-</u>            | <u>(1,097,507)</u>  | <u>(1,097,507)</u>  |
| Net carrying amount      | <u>P 40,410,543</u> | <u>P 11,397,373</u> | <u>P 51,807,916</u> |

## - 45 -

The reconciliations of the carrying amounts of investment properties at the beginning and end of 2023 and 2022 are shown below.

|   | <u>Land</u>           | <u>Buildings</u>     | <u>Total</u>          |
|---|-----------------------|----------------------|-----------------------|
| Balance at January 1, 2023 – net of accumulated depreciation and impairment   | P 47,768,097          | P 10,166,760         | P 57,934,857          |
| Additions   | 10,487,695            | 1,086,246            | 11,573,941            |
| Disposals   | ( 13,602,406)         | ( 1,046,015)         | ( 14,648,421)         |
| Depreciation for the year   | -                     | ( 1,193,920)         | ( 1,193,920)          |
| Transfer to assets classified as held for sale (see Note 12)                  | ( <u>44,653,386</u> ) | ( <u>9,013,071</u> ) | ( <u>53,666,457</u> ) |
| Balance at December 31, 2023 - net of accumulated depreciation and impairment | <u>P -</u>            | <u>P -</u>           | <u>P -</u>            |
| Balance at January 1, 2022 – net of accumulated depreciation and impairment   | P 40,410,543          | P 11,397,373         | P 51,807,916          |
| Additions   | 13,673,478            | 1,164,830            | 14,838,308            |
| Disposals   | ( 6,315,924)          | ( 1,167,796)         | ( 7,483,720)          |
| Depreciation for the year   | <u>-</u>              | ( <u>1,227,647</u> ) | ( <u>1,227,647</u> )  |
| Balance at December 31, 2022 - net of accumulated depreciation and impairment | <u>P 47,768,097</u>   | <u>P 10,166,760</u>  | <u>P 57,934,857</u>   |

As of December 31, 2022, the carrying amount of investment properties amounted to P57.93 million with allowance for impairment amounting to P1.99 million. The gross carrying amount includes P14.84 million cost of the parcel of land and building foreclosed by the Bank in 2022, while the allowance for impairment pertains to the amount reclassified by the Bank in 2022 from its previously recognized allowance for impairment on the related loans and receivable (see Note 9). There was no similar transaction in 2023.

In 2023 and 2022, the Bank recognized a gain on disposal of investment properties of P24.75 million and P4.45 million, respectively, and rental income amounting to P0.05 million and P0.56 million, respectively, which is presented in Other operating income in the statements of comprehensive income (see Note 18).

Expenses incurred by the Bank related to investment properties include taxes and licenses amounting to P0.44 million and P4.86 million in 2023 and 2022, respectively.

As of December 31, 2023 and 2022, the foreclosed investment properties still subject to redemption period by the borrowers amount to P10.00 million and P7.30 million, respectively.

The estimated fair values of the properties amounted to P27.77 million and P111.20 million as of December 31, 2023 and 2022, respectively (see Note 7.4).

- 46 -

**12. NON-CURRENT ASSETS CLASSIFIED AS HELD FOR SALE**

A reconciliation of the carrying amounts of non-current assets classified as held for sale at the beginning and end of 2023 is shown below.

|   | <u>Land</u>                | <u>Buildings</u>          | <u>Total</u>               |
|---|----------------------------|---------------------------|----------------------------|
| Balance at the beginning of the year                      | P -                        | P -                       | P -                        |
| Reclassification from investment properties (see Note 11) | <u>44,653,386</u>          | <u>9,013,071</u>          | <u>53,666,457</u>          |
| Balance at the end of the year                            | <b><u>P 44,653,386</u></b> | <b><u>P 9,013,071</u></b> | <b><u>P 53,666,457</u></b> |

The carrying values of these investment properties which were reclassified to assets held for sale amounted to P53.67 million, while the related appraised values amounted to P151.57 million was made during the last quarter of 2023 (see Notes 7.4 and 11).

The Bank targets to dispose all of the properties during the first half of the year 2024. Disposal of the assets on a business-as-usual basis via auctions and negotiated sales are still underway.

**13. OTHER RESOURCES**

This account consists of:

|                           | <u>Notes</u> | <u>2023</u>                | <u>2022</u>                |
|---------------------------|--------------|----------------------------|----------------------------|
| Investments at FVOCI      | 7.2, 13.1    | <b>P 17,100,271</b>        | P 13,672,806               |
| Office supplies           |              | <b>3,931,392</b>           | 3,718,109                  |
| Rental and other deposits |              | <b>3,580,055</b>           | 3,497,561                  |
| Retirement benefit asset  | 20.2         | <b>2,651,313</b>           | 6,034,398                  |
| Prepaid expense           |              | <b>2,494,080</b>           | 2,154,279                  |
| Computer software - net   | 13.2         | <b>1,690,619</b>           | 1,870,443                  |
| Miscellaneous             |              | <b><u>3,079,052</u></b>    | <u>3,655,222</u>           |
|                           |              | <b><u>P 34,526,782</u></b> | <b><u>P 34,602,818</u></b> |

Miscellaneous resources include, among others, revolving fund and advances relating to the consolidation of titles of certain properties.

**13.1 Financial Asset at FVOCI**

Financial asset at FVOCI represent the Bank's investment in equity securities of BancNet, Inc. The fair value of this investment increased by P3.43 million in 2023 and decreased by P12.43 million in 2022, which is recognized as an adjustment in other comprehensive income (loss) as an item that will not be reclassified to profit or loss.

No dividend income received by the Bank on this investment both in 2023 and 2022.

- 47 -

### 13.2 Computer Software

The gross carrying amounts and the accumulated amortization of computer software at the beginning and end of 2023 and 2022 follow:

|                          | <u>December 31,<br/>2023</u> | <u>December 31,<br/>2022</u> | <u>January 1,<br/>2022</u> |
|--------------------------|------------------------------|------------------------------|----------------------------|
| Cost                     | <b>P 14,075,282</b>          | P 12,866,441                 | P 12,188,016               |
| Accumulated amortization | <b>( 12,384,663)</b>         | ( 10,995,998)                | ( 8,866,457)               |
| Net carrying amount      | <b><u>P 1,690,619</u></b>    | <u>P 1,870,443</u>           | <u>P 3,321,559</u>         |

A reconciliation of the carrying amounts of computer software at the beginning and end of 2023 and 2022 is shown below.

|   | <u>Note</u> | <u>2023</u>               | <u>2022</u>        |
|---|-------------|---------------------------|--------------------|
| Balance at January 1, net of accumulated amortization |             | <b>P 1,870,443</b>        | P 3,321,559        |
| Amortization charges for the year                     | 19          | <b>( 1,388,696)</b>       | ( 2,129,511)       |
| Additions   |             | <b><u>1,208,872</u></b>   | <u>678,395</u>     |
| Net carrying amount                                   |             | <b><u>P 1,690,619</u></b> | <u>P 1,870,443</u> |

## 14. DEPOSIT LIABILITIES

The following is the breakdown of deposit liabilities:

|         | <u>2023</u>                 | <u>2022</u>            |
|---------|-----------------------------|------------------------|
| Current | <b>P 35,578,175</b>         | P 48,406,198           |
| Savings | <b>270,418,782</b>          | 270,291,898            |
| Time    | <b><u>686,386,857</u></b>   | <u>731,256,654</u>     |
|         | <b><u>P 992,383,814</u></b> | <u>P 1,049,954,750</u> |

Interest rates per annum on deposit liabilities ranging from 0.25% to 6.50% in 2023 and from 0.25% to 6.13% in 2022.

In 2020, BSP Circular No. 1092, *Reduction in Reserve Requirements* was released further reducing the required reserves to 3.0%. In 2023, BSP Circular No. 1175, *Reduction in Reserve Requirements* was released further reducing the required reserves to 20% effective June 30, 2023. The Bank is compliant with these BSP regulations as of the end of each reporting period.

The available reserves consist of the demand deposit account to BSP amounting to P80.98 million and P113.69 million as of December 31, 2023 and 2022, respectively (see Note 8).



- 48 -

**15. ACCRUED INTEREST AND OTHER EXPENSES**

This account consists of:

|   | <u>2023</u>                | <u>2022</u>         |
|---|----------------------------|---------------------|
| Accrued gross receipt tax                                       | <b>P 8,218,640</b>         | P 3,104,114         |
| Accrued interest  | <b>3,480,410</b>           | 4,202,392           |
| Accrued insurance - Philippine<br>Deposit Insurance Corporation | <b>1,012,900</b>           | 960,881             |
| Accrued other expenses  | <u><b>7,613,381</b></u>    | <u>7,138,588</u>    |
|   | <u><b>P 20,325,331</b></u> | <u>P 15,405,975</u> |

Other accrued expenses include mainly accruals for utilities, janitorial, security and professional services.

**16. BILLS PAYABLE AND OTHER LIABILITIES**

The breakdown of this account is shown below.

|                           | <u>2023</u>                 | <u>2022</u>          |
|---------------------------|-----------------------------|----------------------|
| Bills Payable             | <u><b>P 40,000,000</b></u>  | <u>P -</u>           |
| Other Liabilities:        |                             |                      |
| Lease liabilities         | <b>P 88,865,476</b>         | P 66,976,428         |
| Accounts payable          | <b>30,286,242</b>           | 38,366,100           |
| Withholding taxes payable | <b>1,139,233</b>            | 930,307              |
| Income tax payable        | <b>906,559</b>              | 810,871              |
| Miscellaneous             | <u><b>1,588,194</b></u>     | <u>1,641,637</u>     |
|                           | <u><b>P 122,785,704</b></u> | <u>P 108,725,343</u> |

Bills payable pertain to the Bank's borrowed funds from RCBC, parent bank, for additional funds in 2023 with a prevailing interest rate of 6.58% and a term of 5 days. There was no similar transactions in 2022.

In 2020, the Bank entered into an agreement with Agricultural Credit Policy Council (ACPC) to participate in the implementation of the Post-COVID-19 support programs for small farmers and fisherfolks. The Bank will serve as a lending conduit who will release loan proceeds to eligible borrowers. The Bank received P45.00 million as an initial credit fund for the implementation of the program and is included as part of Accounts payable.

Accounts payable includes fund received from ACPC, notarial fees, payable to insurance companies and resigned employees, cash bond of the loan account specialists and unliquidated documentary stamp taxes related to time deposit transactions initially paid by the depositors.

- 49 -

The movements in the lease liabilities recognized in the statements of financial position are as follows:

|                               | <u>2023</u>                | <u>2022</u>         |
|-------------------------------|----------------------------|---------------------|
| Balance at January 1          | <b>P 66,976,428</b>        | P 59,505,070        |
| Additions                     | <b>34,937,186</b>          | 18,733,552          |
| Payments of lease liabilities | <b>( 18,118,569)</b>       | ( 15,742,522)       |
| Interest                      | <b><u>5,070,431</u></b>    | <u>4,480,328</u>    |
| Balance at December 31        | <b><u>P 88,865,476</u></b> | <u>P 66,976,428</u> |

The lease liabilities is secured by the related underlying assets (see Note 10). The undiscounted maturity analysis of lease liabilities are as follows:

|                          | <u>Within<br/>1 Year</u>   | <u>Within<br/>2 Years</u>  | <u>Within<br/>3 Years</u>  | <u>Within<br/>4 Years</u>  | <u>Within<br/>5 Years</u> | <u>More than<br/>5 Years</u> | <u>Total</u>               |
|--------------------------|----------------------------|----------------------------|----------------------------|----------------------------|---------------------------|------------------------------|----------------------------|
| <b>December 31, 2023</b> |                            |                            |                            |                            |                           |                              |                            |
| Lease payments           | P 18,633,168               | P 18,581,261               | P 13,679,250               | P 13,747,788               | P 10,197,511              | P 32,849,144                 | P 107,688,122              |
| Finance Charges          | ( <u>3,211,611</u> )       | ( <u>3,988,672</u> )       | ( <u>3,260,691</u> )       | ( <u>2,611,090</u> )       | ( <u>2,001,490</u> )      | ( <u>3,749,092</u> )         | ( <u>18,822,646</u> )      |
| Net present Value        | <b><u>P 15,421,557</u></b> | <b><u>P 14,592,589</u></b> | <b><u>P 10,418,559</u></b> | <b><u>P 11,136,698</u></b> | <b><u>P 8,196,021</u></b> | <b><u>P 29,100,052</u></b>   | <b><u>P 88,865,476</u></b> |
| <b>December 31, 2022</b> |                            |                            |                            |                            |                           |                              |                            |
| Lease payments           | P 15,584,272               | P 14,557,413               | P 14,364,220               | P 9,292,770                | P 9,097,254               | P 16,681,017                 | P 79,576,946               |
| Finance Charges          | ( <u>2,890,048</u> )       | ( <u>2,960,914</u> )       | ( <u>2,215,365</u> )       | ( <u>1,599,205</u> )       | ( <u>1,120,824</u> )      | ( <u>1,814,162</u> )         | ( <u>12,600,518</u> )      |
| Net present Value        | <b><u>P 12,694,224</u></b> | <b><u>P 11,596,499</u></b> | <b><u>P 12,148,855</u></b> | <b><u>P 7,693,565</u></b>  | <b><u>P 7,976,430</u></b> | <b><u>P 14,866,855</u></b>   | <b><u>P 66,976,428</u></b> |

The Bank has elected not to recognize lease liabilities for short-term leases or for leases of low value assets. Payments made under such leases are expensed on a straight-line basis.

As at December 31, 2023 and 2022, the Bank has no committed leases which had not yet commenced.

The expenses relating to short-term leases and leases of low value assets amounted to P1.65 million in 2023 and P1.53 million in 2022 and is presented as part of Occupancy under Other Operating Expenses in the statements of comprehensive income (see Note 19).

## 17. EQUITY

### 17.1 Capital Stock

The Bank's capital stock is composed of 20,000,000 authorized shares with P100 par value per share. As of December 31, 2023 and 2022, there are 11,263,580 shares issued and outstanding at P100 par value or P1.13 billion.

As of December 31, 2023 and 2022, the Bank has only one stockholder owning 100 or more shares of the Bank's capital stock for both years.

- 50 -

**17.2 Appropriation of General Loan Loss Reserves**

Pursuant to the requirements of the BSP under Circular No. 1011, the Bank shall recognize general loan loss provisions equivalent to one percent of all outstanding loans as of the end of the reporting period, except for accounts considered as credit risk-free under the existing BSP regulations. In cases when the computed allowance for ECL on those exposures is less than the required one percent general loan loss provisions required, the deficiency is recognized through appropriation from the Bank's available surplus. The accumulated amount of appropriation to General Loan Loss Reserves for general loan loss portfolio for both years amounted to P9.27 million.

**17.3 Revaluation Reserves**

Revaluation reserves comprise of gains and losses arising from the remeasurements of the Bank's retirement benefit plan and fair value changes on its financial asset at FVOCI.

**18. OTHER OPERATING INCOME**

This account consists of the following:

|  | <u>Notes</u> | <u>2023</u>                | <u>2022</u>         |
|--|--------------|----------------------------|---------------------|
| Service fees and commission                |              | <b>P 27,354,940</b>        | P 30,933,671        |
| Gain on sale of investment property        | 11           | <b>24,751,579</b>          | 4,454,279           |
| Gain on disposal of property and equipment | 10           | <b>56,811</b>              | 15,704,513          |
| Rent income                                | 11           | <b>54,734</b>              | 561,576             |
| Other income                               |              | <b><u>12,744,527</u></b>   | <u>3,939,865</u>    |
|  |              | <b><u>P 64,962,591</u></b> | <u>P 55,593,904</u> |

Other income includes notarial fees, penalty, holding fees, establishment fees charged to customers and pre-termination fees.

**19. OTHER OPERATING EXPENSES**

The details of this account are shown below and the succeeding page.

|  | <u>Notes</u> | <u>2023</u>                 | <u>2022</u>          |
|--|--------------|-----------------------------|----------------------|
| Salaries and employee benefits         | 20.1         | <b>P 106,453,034</b>        | P 102,637,088        |
| Depreciation and amortization          | 10, 11, 13.2 | <b>29,659,229</b>           | 30,224,503           |
| Taxes and licenses                     |              | <b>22,171,244</b>           | 19,959,768           |
| Messengerial, janitorial and security  | 22.3         | <b>11,942,503</b>           | 11,852,206           |
| Transportation and travel              |              | <b>6,508,402</b>            | 3,244,486            |
| Insurance                              |              | <b>5,403,060</b>            | 5,095,995            |
| Management and other professional fees |              | <b>4,854,096</b>            | 3,567,004            |
| Postage and utilities                  |              | <b>4,066,359</b>            | 5,448,213            |
| Power, light and water                 | 22.3         | <b>3,648,457</b>            | 3,881,074            |
| Information technology                 |              | <b><u>3,174,492</u></b>     | <u>3,101,873</u>     |
| <i>Balance brought forward</i>         |              | <b><u>P 197,880,876</u></b> | <u>P 189,012,210</u> |

- 51 -

|                                | <u>Notes</u> | <u>2023</u>                 | <u>2022</u>          |
|--------------------------------|--------------|-----------------------------|----------------------|
| <i>Balance brought forward</i> |              | <b>P 197,880,876</b>        | P 189,012,210        |
| Repairs and maintenance        |              | <b>2,572,681</b>            | 2,413,445            |
| Fuel and lubricant             |              | <b>2,202,001</b>            | 2,333,625            |
| Stationery and supplies        |              | <b>2,173,757</b>            | 2,440,909            |
| Occupancy                      | 16, 22.3     | <b>1,646,927</b>            | 1,532,831            |
| Advertising and publicity      |              | <b>969,081</b>              | 605,795              |
| Supervision fees               |              | <b>447,860</b>              | 432,061              |
| Miscellaneous                  |              | <b><u>1,952,088</u></b>     | <u>7,720,679</u>     |
|                                |              | <b><u>P 209,845,271</u></b> | <u>P 206,491,555</u> |

## 20. EMPLOYEE BENEFITS

### 20.1 Salaries and Employee Benefits

Expenses recognized for employee benefits are presented below.

|                                    | <u>Notes</u> | <u>2023</u>                 | <u>2022</u>          |
|------------------------------------|--------------|-----------------------------|----------------------|
| Short-term employee benefits       |              | <b>P 102,528,202</b>        | P 97,834,895         |
| Post-employment<br>defined benefit | 20.2         | <b><u>3,924,832</u></b>     | <u>4,802,193</u>     |
|                                    | 19           | <b><u>P 106,453,034</u></b> | <u>P 102,637,088</u> |

### 20.2 Retirement Benefit Plan

#### (a) Characteristics of the Defined Benefit Plan

The Bank maintains a partially-funded, tax-qualified, non-contributory defined retirement benefit plan that is being administered by a trustee bank covering all regular full-time employees (see Note 22.5). The trustee bank managed the fund under the supervision of the Corporate Governance Committee of the Bank who acts in the best interest of the plan assets and is responsible for setting the investment policies.

The normal retirement age is 60 with a minimum of 10 years of credited service. The plan also provides for an early retirement upon attainment of age 50 and completion of at least 10 years of credit service subject to the approval of the BOD. Normal retirement benefit is an amount equivalent to 125% of employee's final covered compensation for every year of credited service.

#### (b) Explanation of Amounts Presented in the Financial Statements

Actuarial valuations are made annually to update the post-employment benefit costs and the amount of contributions. All amounts presented in the succeeding pages are based on the actuarial valuation reports obtained from independent actuary in 2023 and 2022.

- 52 -

The amount of retirement benefit asset recognized in the statements of financial position and presented as part of Other Resources account is determined as follows (see Note 13):

|                                 | <u>2023</u>               | <u>2022</u>               |
|---------------------------------|---------------------------|---------------------------|
| Fair value of plan assets       | <b>P 35,690,240</b>       | P 35,399,213              |
| Present value of the obligation | <b>( 32,853,335)</b>      | ( 28,701,952)             |
| Effect of the asset ceiling     | <b>( 185,592)</b>         | ( 662,863)                |
|                                 | <b><u>P 2,651,313</u></b> | <b><u>P 6,034,398</u></b> |

The movements in the present value of the retirement benefit obligation are as follows:

|   | <u>2023</u>                | <u>2022</u>                |
|---|----------------------------|----------------------------|
| Balance at beginning of year                                      | <b>P 28,701,952</b>        | P 31,683,194               |
| Current service cost  | <b>3,924,832</b>           | 4,802,193                  |
| Interest expense  | <b>2,210,050</b>           | 1,584,160                  |
| Remeasurement – actuarial losses (gains) arising from changes in: |                            |                            |
| - financial assumptions   | <b>( 1,493,742)</b>        | ( 8,314,442)               |
| - experience adjustments  | <b>254,503</b>             | 1,084,344                  |
| Benefits paid   | <b>( 744,260)</b>          | ( 2,137,497)               |
| Balance at end of year  | <b><u>P 32,853,335</u></b> | <b><u>P 28,701,952</u></b> |

The movements in the fair value of plan assets are presented below.

|   | <u>2023</u>                | <u>2022</u>                |
|---|----------------------------|----------------------------|
| Balance at beginning of year  | <b>P 35,399,213</b>        | P 32,180,516               |
| Interest income   | <b>2,697,085</b>           | 1,680,588                  |
| Contributions   | <b>-</b>                   | 5,000,000                  |
| Negative return on plan assets (excluding amounts included in net interest) | <b>( 1,661,798)</b>        | ( 1,324,394)               |
| Benefits paid   | <b>( 744,260)</b>          | ( 2,137,497)               |
| Balance at end of year  | <b><u>P 35,690,240</u></b> | <b><u>P 35,399,213</u></b> |

The composition of the fair value of plan assets at the end of the reporting period for each category and risk characteristics is shown below.

|                             | <u>2023</u>                | <u>2022</u>                |
|-----------------------------|----------------------------|----------------------------|
| Due from other banks        | <b>P 9,368,688</b>         | P 30,177,000               |
| Philippine government bonds | <b>26,100,273</b>          | 5,084,824                  |
| Others – net                | <b><u>221,279</u></b>      | <b><u>137,389</u></b>      |
|                             | <b><u>P 35,690,240</u></b> | <b><u>P 35,399,213</u></b> |

The fair values of the Philippine government bonds are determined based on the Bloomberg Valuation Services (BVAL). The plan assets earned a net gain of P1.04 million in 2023 and net loss of P0.36 million in 2022.

- 53 -

Plan assets do not comprise any of the Bank's own financial instruments or assets held and owned by its related parties.

The components of amounts recognized in profit or loss and in other comprehensive income in respect of the defined benefit post-employment plan are as follows:

|   | <u>2023</u>               | <u>2022</u>          |
|---|---------------------------|----------------------|
| <i>Recognized in profit or loss:</i>  |                           |                      |
| Current service cost  | <b>P 3,924,832</b>        | P 4,802,193          |
| Net interest expense  | <b>( 435,995)</b>         | ( 95,244)            |
|   | <b><u>P 3,488,837</u></b> | <u>P 4,706,949</u>   |
| <i>Recognized in other comprehensive loss (income):</i>                     |                           |                      |
| Actuarial losses (gains) arising from changes in:                           |                           |                      |
| - financial assumptions   | <b>(P 1,493,742)</b>      | (P 8,314,442)        |
| - experience adjustments  | <b>254,503</b>            | 1,084,344            |
| Negative return on plan assets (excluding amounts included in net interest) | <b>1,661,798</b>          | 1,324,394            |
| Effect on asset ceiling   | <b>( 528,311)</b>         | 637,997              |
|   | <b><u>(P 105,752)</u></b> | <u>(P 5,267,707)</u> |

Current service cost and the past service cost arising from the plan amendment is included as part of Salaries and employee benefits under Other Operating Expenses account in the statements of comprehensive income (see Notes 19 and 20.1).

Past service costs arise from the decrease in expected rate of salary increase during the year.

The net interest expense is presented as part of Others under Interest Expense account in the statements comprehensive income.

Amounts recognized in other comprehensive loss will not be reclassified subsequently to profit or loss. In determining the amounts of the retirement obligation, the following significant actuarial assumptions were used:

|                                   | <u>2023</u>  | <u>2022</u> |
|-----------------------------------|--------------|-------------|
| Discount rates                    | <b>7.00%</b> | 7.70%       |
| Expected rate of salary increases | <b>4.00%</b> | 5.00%       |

Assumptions regarding future mortality experience are based on published statistics and mortality tables. The average remaining working lives of an individual retiring at the age of 60 is 27. These assumptions were developed by management with the assistance of an independent actuary. Discount factors are determined close to the end of each reporting period by reference to the interest rates of a zero-coupon government bond with terms to maturity approximating to the terms of the retirement obligation. Other assumptions are based on current actuarial benchmarks and management's historical experience.



- 54 -

*(c) Risks Associated with the Retirement Plan*

The plan exposes the Bank to actuarial risks such as investment risk, interest rate risk, longevity risk and salary risk.

*(i) Investment and Interest Risks*

The present value of the defined benefit obligation is calculated using a discount rate determined by reference to market yields of government bonds. Generally, a decrease in the interest rate of a reference government bonds will increase the plan obligation. However, this will be partially offset by an increase in the return on the plan's investments in debt securities and if the return on plan asset falls below this rate, it will create a deficit in the plan.

Currently, the plan is heavily invested in government bonds and due from other banks which are generally considered to be less risky than equity investments.

*(ii) Longevity and Salary Risks*

The present value of the defined benefit obligation is calculated by reference to the best estimate of the mortality of the plan participants during their employment, and to their future salaries. Consequently, increases in the life expectancy and salary of the plan participants will result in an increase in the plan obligation.

*(d) Other Information*

The information on the sensitivity analysis for certain significant actuarial assumptions, the Bank's asset-liability matching strategy, and the timing and uncertainty of future cash flows related to the retirement plan are described below and in the succeeding pages.

*(i) Sensitivity Analysis*

The following table summarizes the effects of changes in the significant actuarial assumptions used in the determination of the post-employment defined benefit obligation as of December 31, 2023 and 2022:

|                                 | <u>Impact on Post-Employment Defined Benefit Obligation</u> |    |                               |                               |
|---------------------------------|---|----|-------------------------------|-------------------------------|
|                                 | <u>Change in Assumption</u>                                 |    | <u>Increase in Assumption</u> | <u>Decrease in Assumption</u> |
| <b><u>December 31, 2023</u></b> |   |    |                               |                               |
| Discount rate                   | +/- 1%  | (P | 4,912,828)                    | P 4,036,129                   |
| Salary growth rate              | +/- 1%  |    | 5,016,344                     | ( 4,177,817)                  |
| <b><u>December 31, 2022</u></b> |   |    |                               |                               |
| Discount rate                   | +/- 1%  | (P | 4,564,579)                    | P 3,735,785                   |
| Salary growth rate              | +/- 1%  |    | 4,645,692                     | ( 3,855,703)                  |

- 55 -

The sensitivity analysis is based on a change in an assumption while holding all other assumptions constant. This analysis may not be representative of the actual change in the defined benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated.

Furthermore, in presenting the above sensitivity analysis, the present value of the defined benefit obligation has been calculated using the projected unit credit method at the end of the reporting period, which is the same as that applied in calculating the defined benefit obligation recognized in the statements of financial position.

(ii) *Asset-liability Matching Strategies*

To efficiently manage the retirement plan, the Bank ensures that the investment positions are managed in accordance with its asset-liability matching strategy which is to ensure that investments are in line with the obligations under the retirement scheme. This strategy aims to match the plan assets to the retirement obligations by investing in less risky investments (placements with BSP and government bonds).

(iii) *Funding Arrangements and Expected Contributions*

The plan is currently overfunded by P2.65 million based on the latest actuarial valuation. While there is no minimum funding requirement in the country, the size of the underfunding may pose a cash flow risk in about five to 10 years' time when the total expected benefit payments would have exhausted the assets currently in the fund.

The maturity profile of undiscounted expected benefit payments within 10 years as of December 31 from the plan follows:

|                                   | <u>2023</u>                | <u>2022</u>         |
|-----------------------------------|----------------------------|---------------------|
| More than one year to five years  | <b>P 12,454,363</b>        | P 12,334,506        |
| More than five years to ten years | <u><b>13,364,925</b></u>   | <u>12,960,174</u>   |
|                                   | <u><b>P 25,819,288</b></u> | <u>P 25,294,680</u> |

The weighted average duration of the defined benefit obligation at the end of the reporting period is 14.5 years.

- 56 -

## 21. INCOME TAXES

### 21.1 Current and Deferred Taxes

The components of tax expense relating to profit or loss and other comprehensive income follow:

|                                     | <u>2023</u>               | <u>2022</u>        |
|-------------------------------------|---------------------------|--------------------|
| <i>Reported in profit or loss:</i>  |                           |                    |
| Current tax expense:                |                           |                    |
| Minimum corporate income tax (MCIT) | <b>P 2,654,718</b>        | P 1,642,575        |
| Final tax at 20% and 15%            | <u><b>961,120</b></u>     | <u>1,182,727</u>   |
|                                     | <u><b>P 3,615,838</b></u> | <u>P 2,825,302</u> |

A reconciliation of tax on pretax profit computed at the applicable statutory rates to tax expense reported in the statements of profit or loss follows:

|   | <u>2023</u>               | <u>2022</u>        |
|---|---------------------------|--------------------|
| Tax on pretax profit at 25%                             | <b>P 1,679,757</b>        | P 5,604,173        |
| Adjustment for income<br>subjected to lower tax rates   | <b>( 237,699)</b>         | ( 101,893)         |
| Tax effects of:   |                           |                    |
| Excess MCIT over regular corporate<br>income tax (RCIT) | <b>3,125,288</b>          | 11,553,577         |
| Non-deductible expenses                                 | <b>( 1,287,841)</b>       | 1,362,843          |
| Unrecognized deferred tax assets                        | <b>608,165</b>            | ( 15,045,367)      |
| Non-taxable income                                      | <b>( 271,832)</b>         | ( 548,031)         |
| Tax expense   | <u><b>P 3,615,838</b></u> | <u>P 2,825,302</u> |

The Bank is subject to the MCIT, which is computed at 2% starting July 2023 and 1% in 2022 of gross income net of allowable deductions, as defined under the tax regulations, or to RCIT, whichever is higher. The Bank is liable for MCIT in 2023 and 2022 since the Bank is in a net taxable loss position in both in years.

The details of excess MCIT over RCIT which can be applied against RCIT due within three consecutive years from the year the MCIT was incurred. The details of excess MCIT over RCIT with its corresponding validity is shown below.

| <u>Year<br/>Incurred</u> | <u>Amount</u>             | <u>Expired</u>              | <u>Remaining<br/>Balance</u> | <u>Expiry<br/>Year</u> |
|--------------------------|---------------------------|-----------------------------|------------------------------|------------------------|
| 2023                     | P 2,654,718               | P -                         | P 2,654,718                  | 2026                   |
| 2022                     | 1,642,575                 | -                           | 1,642,575                    | 2025                   |
| 2021                     | 1,432,229                 | -                           | 1,432,229                    | 2024                   |
| 2020                     | <u>2,683,868</u>          | <u>( 2,683,868)</u>         | <u>-</u>                     | 2023                   |
|                          | <u><b>P 8,413,390</b></u> | <u><b>(P 2,683,868)</b></u> | <u><b>P 5,729,522</b></u>    |                        |

- 57 -

Pursuant to Section 4(bbb) of R.A. No. 11494, *Bayaniban II*, the NOLCO for taxable years 2020 and 2021 can be claimed as deduction within five consecutive years immediately following the year of such loss. The breakdown of NOLCO which can be applied against taxable income within five consecutive years from the year the loss was incurred is shown below. In 2023 and 2022, NOLCO period reverted to 3 years.

| <u>Year Incurred</u> | <u>Original Amount</u>     | <u>Expired</u>    | <u>Applied</u>    | <u>Remaining Balance</u>   | <u>Valid Until</u> |
|----------------------|----------------------------|-------------------|-------------------|----------------------------|--------------------|
| 2023                 | P 1,882,278                | P -               | P -               | P 1,882,278                | 2026               |
| 2022                 | 39,472,854                 | -                 | -                 | 39,472,854                 | 2025               |
| 2021                 | 6,608,986                  | -                 | -                 | 6,608,986                  | 2026               |
| 2020                 | <u>24,288,646</u>          | <u>-</u>          | <u>-</u>          | <u>24,288,646</u>          | 2025               |
|                      | <b><u>P 72,252,764</u></b> | <b><u>P -</u></b> | <b><u>P -</u></b> | <b><u>P 72,252,764</u></b> |                    |

In 2023 and 2022, the Bank claimed itemized deductions in computing its income tax due.

The Bank has not recognized the net deferred tax assets related to the following temporary differences because management believes that the Bank may not be able to generate sufficient taxable profit in the future against which the benefits of these net deferred tax assets can be utilized:

|                            | <u>2023</u>                 |                            | <u>2022</u>                 |                            |
|----------------------------|-----------------------------|----------------------------|-----------------------------|----------------------------|
|                            | <u>Amount</u>               | <u>Tax Effect</u>          | <u>Amount</u>               | <u>Tax Effect</u>          |
| Allowance for impairment   | P 69,027,132                | P 17,256,783               | P 68,593,953                | P 17,148,488               |
| Right-of-use assets        | ( 77,644,700)               | ( 19,411,175)              | ( 57,238,991)               | ( 14,309,748)              |
| Lease liabilities          | 88,865,476                  | 22,216,369                 | 66,976,428                  | 16,744,107                 |
| NOLCO                      | 72,252,764                  | 18,063,191                 | 70,370,486                  | 17,592,622                 |
| Past service cost          | 13,383,731                  | 3,345,933                  | 15,677,056                  | 3,919,264                  |
| Excess MCIT over RCIT      | 16,111,094                  | 16,111,094                 | 15,669,674                  | 15,669,674                 |
| Rental income differential | -                           | -                          | ( 2,128,842)                | ( 532,211)                 |
| Retirement benefit asset   | <u>2,651,313</u>            | <u>662,828</u>             | <u>6,034,398</u>            | <u>1,508,600</u>           |
|                            | <b><u>P 184,646,810</u></b> | <b><u>P 58,245,023</u></b> | <b><u>P 183,954,162</u></b> | <b><u>P 57,740,796</u></b> |

## ***21.2 Supplementary Information Required under Revenue Regulations (RR) No. 15-2010***

The BIR issued RR No. 15-2010 which requires certain tax information to be disclosed as part of the notes to financial statements. Such supplementary information is, however, not a required disclosure under the PFRS and SEC rules and regulations covering the form and content of financial statements under the Revised Securities Regulation Code Rule 68.

The Bank presented this tax information required by the BIR as a supplementary schedule filed separately from the basic financial statements.

- 58 -

## 22. RELATED PARTY TRANSACTIONS

In the ordinary course of business, the Bank has transactions with the Parent Bank and other related parties as defined below. These transactions include regular banking transactions, outside services and lease of office space. The summary of the Bank's transactions and outstanding balances with the Parent Bank and other related parties as of and for the years ended December 31, 2023 and 2022 is as follows:

| Related Party<br>Category                     | Notes      | 2023                     |                        | 2022                     |                        |
|---|------------|--------------------------|------------------------|--------------------------|------------------------|
|   |            | Amount of<br>Transaction | Outstanding<br>Balance | Amount of<br>Transaction | Outstanding<br>Balance |
| <b>Parent Bank</b>                            |            |                          |                        |                          |                        |
| Cash deposits                                 | 8, 22.2    | P 15,662,188             | P 92,552,132           | P 4,315,572              | P 76,889,944           |
| Bills payable                                 | 16         | 40,000,000               | 40,000,000             | -                        | -                      |
| Interest income on deposits                   | 22.2       | 78,146                   | -                      | 100,085                  | -                      |
| Rent income                                   | 11, 18     | 54,734                   | -                      | 558,075                  | -                      |
| Expenses:                                     |            |                          |                        |                          |                        |
| Occupancy                                     | 19, 22.3   | 3,063,376                | -                      | 6,638,674                | -                      |
| Messengerial, janitorial and security         | 19, 22.3   | 77,314                   | -                      | 1,696,974                | -                      |
| Power, light and water                        | 19, 22.3   | 65,463                   | -                      | 60,007                   | -                      |
| Retirement plan                               | 20.2, 22.5 | 291,027                  | 35,690,240             | 3,218,697                | 35,399,213             |
| <b>Related Parties Under Common Ownership</b> |            |                          |                        |                          |                        |
| Advances granted                              | 22.4       | -                        | -                      | 4,022,630                | -                      |
| <b>Key Management Personnel Compensation</b>  |            |                          |                        |                          |                        |
|   | 22.6       | 18,985,917               | -                      | 19,766,252               | -                      |

### 22.1 Directors, Officers, Stockholders and other Related Interests (DOSRI)

In the ordinary course of business, the Bank may have loans and other transactions with certain DOSRI. Under the Bank's policy, these deposits and other transactions are made substantially on the same terms as with other individuals and businesses of comparable risks.

As of December 31, 2023 and 2022, the Bank has DOSRI loans amounted to P6.80 million and P5.64 million, respectively, and is in compliance with these regulatory requirements.

### 22.2 Bank Deposits

As of December 31, 2023 and 2022, the Bank has deposit accounts with RCBC, parent bank, amounting to P92.55 million and P76.89 million, respectively, which are presented as part of Due from Other Banks account in the statements of financial position. These bank accounts are interest-bearing and subject to normal banking terms and conditions applied by RCBC to ordinary depositors (see Note 8).

The Bank declared its deposit accounts with related parties as DOSRI credit accommodation as of December 31, 2023 and 2022, which are secured by the related parties' investments in government securities.

- 59 -

### ***22.3 Messengerial, Janitorial and Security and Occupancy, Power, Light and Water***

The Bank, as a lessee, entered into a sublease agreement with RCBC. Incidental to the sublease agreement, RCBC paid expenses on behalf of the Bank, including messengerial, janitorial and security, and power, light and water which are presented under Other Operating Expenses account in the statements of comprehensive income (see Note 19).

The rent and the related expenses are generally settled through cash payments with no interest charged on the outstanding balance, if any, at the end of the reporting period. There are no outstanding payables relating to these transactions as of December 31, 2023 and 2022.

### ***22.4 Advances***

In 2022, the Bank paid certain expenses relating to the consolidation of titles of certain properties of RCBC-JPL Holding Company, Inc., a related party under common control by the Parent Bank. The related outstanding balance is presented as part of Miscellaneous under Other Resources account in the statement of financial position will be reclassified to Bank Premises upon receipt of title of land from registry of deeds. There are no outstanding balances relating to these transactions as of December 31, 2023 and 2022.

### ***22.5 Transactions with the Retirement Fund***

The Bank's retirement fund covered under their post-employment defined benefit plan maintained for qualified employees is administered and managed by RCBC's Trust Department. The carrying amount and the composition of the plan assets (including savings deposit maintained with RCBC) as of December 31, 2023 and 2022, are shown in Note 20.2.

In 2022, the Bank made an additional contribution to the retirement plan amounting to P5.0 million. No similar transaction in 2023.

The retirement fund neither provides any guarantee or surety for any obligation of the Bank nor its investments covered by any restriction or liens.

### ***22.6 Key Management Personnel Compensation***

Short-term benefits paid to key management employees amounted to P18.99 million and P19.77 million in 2023 and 2022, respectively.

## **23. COMMITMENTS AND CONTINGENCIES**

The following are the significant commitments and contingencies involving the Bank:

### ***23.1 Operating Lease Commitments – Bank as a Lessor***

The Bank entered into operating lease agreement as lessor of its parcel of land leased out to RCBC. The lease has a term of 25 years commencing on January 1, 2012. The lease contract has a fixed escalation rate of 3% starting on the second year of the lease term.

Rent income from this contract is shown as part of Other Operating Income in the statements of comprehensive income (see Note 18).



- 60 -

The Bank is subject to risk incidental to the leasing operations which include, among others, changes in the market rental rates, inability to renew leases upon lease expiration and inability to collect rent from lessees due to bankruptcy or insolvency of lessees. To mitigate these risks, and in case a lessee pre-terminates without at least six month prior written notice, the lessor shall be entitled to be indemnified for all actual damages plus attorney's fee equivalent to 10% but no less than P20,000 in addition to the cost of suit which the law may entitle to recover.

The Bank future minimum rental receivables under this operating lease arrangement in 2022 are as follows.

|  |          |                   |
|--|----------|-------------------|
| Within one year                                | P        | 645,886           |
| After one year but not more than two years     |          | 665,263           |
| After two years but not more than three years  |          | 685,221           |
| After three years but not more than four years |          | 705,777           |
| After four years but not more than five years  |          | 726,951           |
| More than five years                           |          | <u>8,583,684</u>  |
|  | <u>P</u> | <u>12,012,782</u> |

In 2023, the Bank sold the said property for P34.90 million which resulted in a gain on sale of P22.64 million.

### 23.2 Others

In the normal course of business, the Bank makes various commitments, including undrawn loan commitment to customer, and incurs certain contingent liabilities that are not given recognition in the financial statements. As of December 31, 2023 and 2022, management believes that losses, if any, that may arise from these commitments and contingencies will not have any material effect on the financial statements.

### 23.3 Capital Commitments

As of December 31, 2023 and 2022, the Bank has no contractual commitment for the acquisition of Bank premises, furniture, fixtures and equipment, and Investment properties (see Notes 10 and 11).

## 24. MATURITY ANALYSIS OF RESOURCES AND LIABILITIES

|  | Notes | 2023               |                    |                 | 2022               |                    |                 |
|--|-------|--------------------|--------------------|-----------------|--------------------|--------------------|-----------------|
|  |       | Within<br>One Year | Beyond<br>One Year | Total           | Within<br>One Year | Beyond<br>One Year | Total           |
| <b>Financial Resources</b>                             |       |                    |                    |                 |                    |                    |                 |
| Cash   | 8     | P 13,650,462       | P -                | P 13,650,462    | P 12,754,048       | P -                | P 12,754,048    |
| Due from BSP   | 8     | 80,981,879         | -                  | 80,981,879      | 113,687,087        | -                  | 113,687,087     |
| Due from other banks                                   | 8     | 99,624,130         | -                  | 99,624,130      | 124,000,360        | -                  | 124,000,360     |
| Loans arising from reverse repurchase agreements       | 8     | 32,951,139         | -                  | 32,951,139      | 23,946,353         | -                  | 23,946,353      |
| Loans and other receivables – net                      | 9     | 479,480,618        | 756,899,459        | 1,236,380,077   | 673,552,342        | 522,222,221        | 1,195,774,563   |
| Other resources – net                                  | 13    | -                  | 20,680,326         | 20,680,326      | -                  | 17,170,367         | 17,170,367      |
|  |       | 706,688,228        | 777,579,785        | 1,484,268,013   | 947,940,190        | 539,392,588        | 1,487,332,778   |
| <b>Non-financial Resources</b>                         |       |                    |                    |                 |                    |                    |                 |
| Bank premises, furniture, fixtures and equipment – net | 10    | -                  | 134,088,207        | 134,088,207     | -                  | 115,123,858        | 115,123,858     |
| Investment properties – net                            | 11    | -                  | -                  | -               | -                  | 57,934,857         | 57,934,857      |
| Non-current assets classified as held for sale         | 12    | 53,666,457         | -                  | 53,666,457      | -                  | -                  | -               |
| Other resources – net                                  | 13    | 7,420,984          | 6,425,472          | 13,846,456      | 11,560,061         | 5,872,390          | 17,432,451      |
|  |       | 61,087,441         | 140,513,679        | 201,601,120     | 11,560,061         | 178,931,105        | 190,491,166     |
|  |       | P 767,775,669      | P 918,093,464      | P 1,685,869,133 | P 959,500,251      | P 718,323,693      | P 1,677,823,944 |

- 61 -

|                                     |    | 2023               |                    |                 | 2022               |                    |                 |
|-------------------------------------|----|--------------------|--------------------|-----------------|--------------------|--------------------|-----------------|
| Notes                               |    | Within<br>One Year | Beyond<br>One Year | Total           | Within<br>One Year | Beyond<br>One Year | Total           |
| <b>Financial Liabilities</b>        |    |                    |                    |                 |                    |                    |                 |
| Deposit liabilities                 | 14 | P 684,166,853      | P 308,216,961      | P 992,383,814   | P 728,223,837      | P 321,730,913      | P 1,049,954,750 |
| Accrued interest and other expenses | 15 | 12,106,691         | -                  | 12,106,691      | 12,301,861         | -                  | 12,301,861      |
| Bills Payable                       | 16 | 40,000,000         | -                  | 40,000,000      | -                  | -                  | -               |
| Other liabilities                   | 16 | 47,295,993         | 73,443,919         | 120,739,912     | 51,574,506         | 55,409,659         | 106,984,165     |
|                                     |    | 783,569,537        | 381,660,880        | 1,165,230,417   | 792,100,204        | 377,140,572        | 1,169,240,776   |
| <b>Non-financial Liabilities</b>    |    |                    |                    |                 |                    |                    |                 |
| Accrued interest and other expenses | 15 | 8,218,640          | -                  | 8,218,640       | 3,104,114          | -                  | 3,104,114       |
| Other liabilities                   | 16 | 2,045,792          | -                  | 2,045,792       | 1,741,178          | -                  | 1,741,178       |
|                                     |    | 10,264,432         | -                  | 10,264,432      | 4,845,292          | -                  | 4,845,292       |
|                                     |    | P 793,833,969      | P 381,660,880      | P 1,175,494,849 | P 796,945,496      | P 377,140,572      | P 1,174,086,068 |

## 25. SUPPLEMENTARY INFORMATION REQUIRED BY THE BANGKO SENTRAL NG PILIPINAS

Presented below are the supplementary information required by the BSP under Section 174 (Appendix 55) of the BSP Manual of Regulations for Banks to be disclosed as part of the notes to financial statements based on BSP Circular 1074, *Amendments to Regulations on Financial Audit of Banks*.

### (a) Selected Financial Performance Indicators

The following basic indicators and ratios measure the financial performance of the Bank:

|  | 2023   | 2022  |
|--|--------|-------|
| Return on average equity   |        |       |
| $\frac{\text{Net income}}{\text{Average total equity}}$                        | 0.61%  | 3.95% |
| Return on average resources  |        |       |
| $\frac{\text{Net income}}{\text{Average total resources}}$                     | 0.18%  | 1.32% |
| Net interest margin  |        |       |
| $\frac{\text{Net interest income}}{\text{Average interest earning resources}}$ | 13.18% | 9.46% |

### (b) Capital Instruments Issued

As of December 31, 2023, the Bank has no capital instruments considered in the computation of the Bank's regulatory and qualifying capital in accordance with Circular 781, *Basel III Implementing Guidelines on Minimum Capital Requirements, which may include*, instruments recorded as part of equity or a financial liability qualifying as Tier 2 capital.

- 62 -

(c) *Significant Credit Exposures for Loans*

The Bank's concentration of credit as to industry for its receivables from customers' portfolio (gross of allowance for ECL) follows:

|  | 2023                   |             | 2022                   |             |
|--|------------------------|-------------|------------------------|-------------|
|  | Amount                 | Share       | Amount                 | Share       |
| Wholesale and retail trade, repair of motor vehicles motorcycles, personal household goods | P 681,197,070          | 53%         | P 691,053,571          | 56%         |
| Agriculture, forestry and fishing  | 211,411,472            | 17%         | 187,509,803            | 15%         |
| Transportation, storage and communication  | 66,126,122             | 5%          | 70,453,600             | 6%          |
| Hotels and restaurants   | 52,468,552             | 4%          | 53,849,758             | 4%          |
| Construction   | 49,298,743             | 4%          | 51,371,140             | 4%          |
| Real estate, renting and business activities   | 47,283,872             | 4%          | 29,607,590             | 2%          |
| Manufacturing  | 37,028,494             | 3%          | 46,537,831             | 4%          |
| Electricity, gas and water supply  | 20,104,241             | 2%          | 10,745,123             | 1%          |
| Private households with employed persons   | 17,760,071             | 1%          | 26,867,819             | 2%          |
| Mining and quarrying   | 16,504,045             | 1%          | 19,980,361             | 2%          |
| Others   | 76,965,698             | 6%          | 46,441,779             | 4%          |
|  | <u>P 1,276,148,380</u> | <u>100%</u> | <u>P 1,234,418,375</u> | <u>100%</u> |

The BSP considers that concentration of credit exists when total loan exposure to a particular industry or economic sector exceed 30% of total loan portfolio except for thrift banks.

Others consists of loans granted to industries under health and social work, and wellness centers.

(d) *Credit Status of Loans*

The breakdown of total loans (receivable from customers) as to status is shown below and the succeeding page.

|                        | 2023                   |                     |                        |
|------------------------|------------------------|---------------------|------------------------|
|                        | Performing             | Non-performing      | Total Loan Portfolio   |
| Gross carrying amount: |                        |                     |                        |
| Micro enterprise       | P 135,669,392          | P 21,759,065        | P 157,428,457          |
| Agricultural loan      | 529,544,570            | 46,388,679          | 575,933,249            |
| SME                    | 442,198,962            | 11,878,978          | 454,077,940            |
| Salary                 | 6,801,905              | -                   | 6,801,905              |
| Other                  | <u>38,258,158</u>      | <u>43,648,671</u>   | <u>81,906,829</u>      |
|                        | 1,152,472,987          | 123,675,393         | 1,276,148,380          |
| Allowance for ECL      | ( 1,176,722 )          | ( 67,105,718 )      | ( 68,282,447 )         |
| Net carrying amount    | <u>P 1,151,296,258</u> | <u>P 56,569,675</u> | <u>P 1,207,865,933</u> |

- 63 -

|                        | 2022                   |                       |                        |
|------------------------|------------------------|-----------------------|------------------------|
|                        | Performing             | Non-performing        | Total Loan Portfolio   |
| Gross carrying amount: |                        |                       |                        |
| Micro enterprise       | P 134,362,186          | P 32,109,553          | P 166,471,739          |
| Agricultural loan      | 556,135,114            | 11,189,972            | 407,814,346            |
| SME                    | 396,624,374            | 17,787,975            | 573,923,089            |
| Salary                 | 2,060,461              | -                     | 2,060,461              |
| Other                  | <u>40,500,068</u>      | <u>43,648,672</u>     | <u>84,148,740</u>      |
|                        | 1,129,682,203          | 104,736,172           | 1,234,418,375          |
| Allowance for ECL      | ( <u>2,211,916</u> )   | ( <u>65,698,407</u> ) | ( <u>67,910,323</u> )  |
| Net carrying amount    | <u>P 1,127,470,287</u> | <u>P 39,037,765</u>   | <u>P 1,166,508,052</u> |

Non-performing loans (NPLs) included in the total loan portfolio of the Bank as of December 31, 2023 and 2022 are presented below, net of allowance for ECL.

|                          | 2023                         | 2022                  |
|--------------------------|------------------------------|-----------------------|
| Gross NPLs               | <b>P 123,675,393</b>         | P 104,736,172         |
| Allowance for impairment | ( <u><b>67,105,718</b></u> ) | ( <u>65,698,407</u> ) |
| Net carrying amount      | <b><u>P 56,569,675</u></b>   | <u>P 39,037,765</u>   |

Under banking regulations, loan accounts shall be considered non-performing, even without any missed contractual payments, when they are considered impaired under existing accounting standards, classified as doubtful or loss, in litigation, and/or there is evidence that full repayment of principal or interest is unlikely without foreclosure of collateral, if any. All other loans, even if not considered impaired, shall be considered non-performing if any principal and/or interest are unpaid for more than 90 days from contractual due date, or accrued interests for more than 90 days have been capitalized, refinanced, or delayed by agreement.

Restructured loans shall be considered non-performing. However, if prior to restructuring, the loans were categorized as performing, such classification shall be retained. Moreover, NPLs shall remain classified as such until (a) there is sufficient evidence to support that full collection of principal and interests is probable and payments of interest and/or principal are received for at least 6 months; or (b) written off.

Restructured loans amount to P20.36 million and P14.97 million as of December 31, 2023 and 2022, respectively. The related allowance for credit loss of such loans amounted to P15.74 million and P14.14 million as of December 31, 2023 and 2022, respectively.

Interest income recognized on impaired loans and receivables amounted to P1.08 million and 4.16 million in 2023 and 2022, respectively.

- 64 -

(e) *Analysis of Loan Portfolio as to Type of Security*

The breakdown of total loans (receivable from customers, net of unearned interests or discounts) as to security follows:

|                      | <u>2023</u>                   | <u>2022</u>            |
|----------------------|-------------------------------|------------------------|
| Secured:             |                               |                        |
| Real estate mortgage | P 777,713,074                 | P 788,644,434          |
| Chattel mortgage     | 58,544,578                    | 76,305,041             |
| Hold-out deposit     | 12,682,147                    | 23,533,657             |
| Others               | <u>44,130,291</u>             | <u>3,353,966</u>       |
|                      | <b>893,070,090</b>            | 891,837,098            |
| Unsecured            | <u><b>383,078,290</b></u>     | <u>342,581,277</u>     |
|                      | <u><b>P 1,276,148,380</b></u> | <u>P 1,234,418,375</u> |

(f) *Information on Related Party Loans*

In the ordinary course of business, the Bank has loan transactions with its other affiliates, and with certain DOSRI. Under existing policies of the Bank, these loans are made substantially on the same terms as loans to other individuals and businesses of comparable risks.

Under the current BSP regulations, the amount of individual loans to a DOSRI, 70% of which must be secured, should not exceed the amount of the encumbered deposit and book value of the investment in the Bank and/or any of its lending and nonbank financial subsidiaries. In the aggregate, loans to DOSRIs, generally, should not exceed the total equity or 15% of the total loan portfolio of the Bank. However, non-risk loans are excluded in both individual and aggregate ceiling computation.

The following table shows the information relating to the loans, credit accommodations and guarantees to DOSRI, excluding loans granted as fringe benefits to officers which are excluded from the individual ceiling as of December 31, 2023 and 2022 in accordance with BSP reporting guidelines:

|  | <u>DOSRI Loans</u> |             | <u>Related Party Loans<br/>(inclusive of DOSRI)</u> |             |
|--|--------------------|-------------|---|-------------|
|  | <u>2023</u>        | <u>2022</u> | <u>2023</u>   | <u>2022</u> |
| Total outstanding loans                                      | P -                | P -         | P -   | P -         |
| % of loans to total loan portfolio                           | 0%                 | 0%          | -   | -           |
| % of unsecured loans to total DOSRI/related party loans      | 0%                 | 0%          | -   | -           |
| % of past due loans to total DOSRI/related party loans       | 0%                 | 0%          | -   | -           |
| % of non-performing loans to total DOSRI/related party loans | 0%                 | 0%          | -   | -           |

- 65 -

*(g) Secured Liabilities and Assets Pledged as Security*

As of December 31, 2023 and 2022, the Bank has no assets pledged as security for liabilities.

*(h) Contingencies and Commitments Arising from Off-balance Sheet Items*

The Bank has no commitments and contingent accounts as of December 31, 2023 and 2022.

### LOANS

#### MICROFINANCE LOANS

##### - SMALL BUSINESS LOAN - LITE PRODUCT (SMALL BIZ LITE)

The Small Business Loan - Lite (Small Biz Lite) is a loan product offered by Rizal MicroBank, Inc. - A Thrift Bank of RCBC now under the Retail Lending Department. The said product aims to provide financial capital to micro and small entrepreneurs who are capable to borrow loans Php1.0M and below with the intention to improve their business operations. Such access to credit will enable these clients to expand their business and consequently, increase their income. The product primarily targets entrepreneurs who generate daily, weekly, semi-monthly or monthly income, have adequate financial records (whether or not these are formalized through an audited financial statement) and have been operating for at least three years.

##### - AGRIBIZ LITE

The AgriBiz - Lite (Agri Lite) is a loan product offered by Rizal MicroBank, Inc. - A Thrift Bank of RCBC now under the Retail Lending Department. This is now for transition to Smallbiz Loan. The said product aims to provide financial capital to agricultural value chain players, such as but not limited to producers, growers, traders, consolidators, processors, and input dealers/retailers, including farmers or growers for certain agricultural products or activities. These players must be capable of earning an income on a weekly, semi-monthly or monthly basis, with certain exceptions allowed for lumpsum payments depending on the nature of business. Loan amount ranges from P150,000 to P500,000 subject to client's capacity to pay.

##### - AGRI PRODUCTION LOAN

The Agri Production Loan is a product offered to individual farmers and farmer organizations in the business of producing agricultural products such as but not limited to crops, livestock, poultry and fisheries. This loan is for renewals only.

#### SMALL BUSINESS LOANS

##### - SMALL BIZ TERM LOAN

The SmallBiz Term Loan is an individual loan product designed to cater the financial needs of businessmen who wish to further improve their business operations. It aims to make available affordable and easily accessible credit to entrepreneurs to help them finance and/or expand their present business operations and increase their incomes. The product primarily targets entrepreneurs who generate regular daily, weekly, semi-monthly or monthly income, have financial records and have the required number of years and experience in running their business. Primarily, SmallBiz Term Loan is granted for the following loan purpose: Additional Working Capital, Purchase of business equipment and vehicle, and Business expansion and branching with loans more than Php1.0M still subject to client's capacity to pay but not more than 60% of the collateral's appraised value.

##### - SMALL BIZ-REVOLVING CREDIT LINE

The SmallBiz - Revolving Credit Line is a flexible, standby, individual loan product of Rizal Microbank, A Thrift Bank of RCBC. The SmallBiz Revolving Credit Line allows a borrower to borrow money from the Bank without the hassle of applying for a loan every time the need for funds arises. It is a reusable source of funds that can readily be tapped at the borrower's discretion subject to approved credit line limit and term set by the Bank. The line will be available for one year, available via 30-day to 180-day PN. During this allotted period of time, the facility will allow the borrower to take out, repay, and take the loan out again, and allow the borrower to use as much of the credit as is available and only pay interest on what has been used. Loan amount ranges from P500,000 to P10M subject to client's capacity to pay but not more than 60% of the collateral's appraised value. This is for renewals only.

### DEPOSITS

##### - ORDINARY SAVINGS/ REGULAR SAVINGS DEPOSIT (PASSBOOK-BASED)

It is a regular passbook-evidenced and interest-bearing deposit product that has a fixed interest rate and can be withdrawn anytime. Interest rate shall be reviewed periodically and is subject to change considering changes in market rates, cost structure of funds and operational requirements of the bank. Interest paid to the Ordinary Savings Account is subject to the applicable final withholding tax of 20%. Opening of Ordinary Savings Account is governed with the general provisions stipulated under the Terms and Conditions of Deposits by the bank. Regular Savings Account can be opened by an Individual or a Corporate Account Holder with a required initial deposit amounting to P500.00 and P5,000.00 pesos, and minimum maintaining balance of P1,000.00 and P5,000.00 pesos, respectively.

The Savings Deposit Passbook is a record book of the account which provides the depositor with a record of his deposit and withdrawal transactions, his current outstanding balance as well as the basic regulations governing the deposit.

##### - BASIC DEPOSIT ACCOUNT

A Basic Deposit Account which is a basic, interest-bearing account targeted towards the unbanked, unserved and underserved markets in the Philippines. This product enables financial inclusion through allowing Filipinos to perform financial transactions in an easy, accessible, affordable and convenient manner.

Basic Deposit Account is composed of two types of Individual Deposit Accounts such as Pangarap Savings, offered to clients 18 years old and above, and Munting Pangarap Savings Deposit, offered to clients who are 17 years old and below, with an initial deposit capped at P100.00 pesos only. Unlike Ordinary Savings Deposit Account, BDA has no minimum maintaining balance, no dormancy charges and no service fees upon account closure. Per bank's policy, the required maximum credit balance is set at P45,000.00 only to ensure that the account remains as low-value. It is also an added internal control to give the bank the flexibility for interest accruals and a good signal that the client may be offered to convert his Basic Deposit Account to a Regular Savings Deposit.



KYC procedures under BDA are simplified as provided under Item W of Sec. X803 of the MORB. Corporate Accounts, Partnership, Cooperatives, Association, MSME's, private and high-net worth individuals are disqualified to open Basic Deposit Accounts.

#### - CONTRACTUAL SAVINGS DEPOSIT (LOAN-BASED)

It is a regular passbook-evidenced and interest-bearing deposit product that is a component of the bank's loan products. All clients who avail of the Bank's loan products are required to save an amount equivalent to at least 10% of the loan amount for Microenterprise Loan; and as agreed with the client, for Regular Loan. The Contractual Savings is deposited throughout the term of the loan. Interest rate shall be reviewed periodically and is subject to change considering changes in market rates, cost structure of funds and operational requirements of the bank.

The Contractual Savings tied to the loan cannot be withdrawn while the existing loan obligation with the Bank and its corresponding interest and penalties are still outstanding. However, client may be allowed to withdraw from his Contractual Savings subject to the conditions stipulated in the policies and procedures under Contractual Savings Accounts subject for justifications and approval.

#### - DEMAND DEPOSIT ACCOUNT (CHECKING ACCOUNT) (PASSBOOK-BASED AND CHECKBOOK)

Demand Deposit Account or Checking Account is a low-interest bearing deposit product that allows deposits and withdrawals thru the use of checkbooks or passbooks. Checks are issued on dates that issuer and receiver agrees. RMB's Checking Account is cleared thru RCBC. Interest rate shall be reviewed periodically and is subject to change considering changes in the market rates, cost structure of funds and operational requirements of the bank. Interest paid to the Checking Account is subject to the applicable final withholding tax of 20%. Opening of Checking Account is governed with the general provisions stipulated under the Terms and Conditions of Deposits by the bank. Checking Account can be opened by several account types such as Personal, Commercial or Corporate, and Joint Accounts. A Personal or a Corporate Account Holder shall open an account with a required initial deposit amounting to P5,000.00 and P10,000.00 pesos, and required minimum Average Daily Balance to earn interest of P10,000.00 and P20,000.00 pesos, respectively. Maintaining of Checking Account is subject to fees and charges. Checks for clearing and encashment shall be returned based on some technical defects, DAUD or DAIF with corresponding charges.

#### - TIME DEPOSIT (CERTIFICATE)

A deposit product which is evidenced by a Certificate of Time Deposit issued by the Bank with a fixed maturity date and earning an interest rate as specifically agreed upon by the Bank and the depositor. Interest rate shall be reviewed periodically and is subject to change considering changes in market rates, cost structure of funds and operational requirements of the bank. Interest paid to the Time Deposit is subject to the applicable final withholding tax of 20%. It can be opened by an Individual or a Corporate Account Holder with a required initial deposit amounting to P5,000.00 pesos only. In case of pre-termination of Time Deposit, client is required to present the original copy of certificate, the interest earnings shall be based on the approved guidelines at the time of pre-termination, and the account is subject to charging of Documentary Stamp Tax as part of the pre-termination charges.

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